00026876

NOT TO BE ISSUED OUT
WITHOUT PERMISSION.

BOMBAY BRANCH
OF THE
ROYAL ASIATIC SOCIETY.
TOWN HALL, BOMBAY.

Digitized with financial assistance from the
Government of Maharashtra
on 18 July, 2018

THE

PRINCIPLES

OF

ECONOMICAL PHILOSOPHY.

———o———

BY

HENRY DUNNING MACLEOD, Esq., M.A.,

OF TRINITY COLLEGE, CAMBRIDGE, AND THE INNER TEMPLE; BARRISTER-AT-LAW;
FELLOW OF THE CAMBRIDGE PHILOSOPHICAL SOCIETY.

26876
ac

SECOND EDITION.

VOLUME II. PART I.

COMPLETING PURE ECONOMICS.

LONDON:
LONGMANS, GREEN, READER, AND DYER.

1875.

THE AUTHOR RESERVES THE RIGHT OF TRANSLATION.

LONDON:
PRINTED BY A. P. BLUNDELL, 78, CHURCH STREET, S.E.

CONTENTS

OF

THE SECOND VOLUME.

PART I.

CHAPTER XI.

ON RENT (*Continued*).

		PAGE
§ 1.	Wakefield's objection to Smith's system	1
2.	Definition of RENT	2
3.	Rent of Kelpshores	3
4.	Rent of Stone Quarries	4
5.	Smith on Rent of Land	4
6.	Erroneous doctrine of Ricardo	5
7.	Smith on Rent of Vineyards	6
8.	The Physiocrates on Productive Labour	7
9.	Smith allows that all Value is not due to Labour	9
10.	Error of Malthus on Rent	10
11.	Smith on Rents in Shetland	13
12.	De Fontenay on Rent	13
13.	Rent an example of the General Law of Value.	20
14.	Land reclaimed during the Revolutionary War	21
15.	Cost of Production of Corn	22
16.	Moderate farms let better than very large ones	23
17.	On Corn-rents	23
18.	Ricardo on Rent of Mines.	24
19.	Absurdity of the Ricardo-Mill Theory of Rent.	25
20.	Rent of Mines and Shops	27
21.	Self-contradiction of Mill on Rent	28
22.	Anderson, Ricardo, and Mill on Rent	29
23.	Self-contradiction of Ricardo	30
24.	Smith's error on Labour as a Standard of Value	31
25.	Exchangeability the sole essence of Wealth and Value	32

CONTENTS.

CHAPTER XII.

ON PROFITS.

		PAGE
§ 1.	Definition of PROFIT and RATE OF PROFIT.	35
	Erroneous definition of Rate of Profit by Economists	36
2.	Ricardo's error on Rate of Profit	37
3.	Erroneous doctrine of McCulloch on Rate of Profit.	37
4.	Error of Malthus on Rate of Profit.	38
5.	Error of Mill on Rate of Profit	39
6.	Examples of Rates of Profit	41
7.	Examples of variations in the Rate of Profit.	42
8.	Examples of Rate of Profit	43
9.	Smith on Apothecaries' Profits	44
10.	Profits in country shops.	46
11.	Mischief of interfering with trade.	46
12.	Bacon on trade Profits	47
13.	Cabs in London and provincial towns	48
14.	Gradual separation of employments	48
15.	Rate of Profit may differ although Profits are equal	49
16.	Increase of Capital reduces Prices and Profits	49
17.	Mill controverts Smith	51
18.	Smith right; Ricardo, McCulloch, and Mill wrong	53
19.	Origin of demand for Banks and Paper Money	54
20.	Self-contradiction of Mill	56
21.	Explanation of a difficulty raised by Say	58
22.	Large Capitals give smaller Profits than small Capitals.	59
23.	Smith wrongly calls Agricultural Labour the most productive	60
24.	Senior's description of Profits inadequate	62
25.	Error of Physiocrates and Mill on Productive Labour	63
26.	Error of Mill on Productive Labour	66
27.	When Labour is productive	67
28.	On Interest	68
29.	Prejudices against Interest	69
30.	Cal[illegible] on Interest	70
31.	Fina[illegible]bolition of Usury Laws in England	72
32.	Confusion of Mill on Value of Money	73
33.	Value of Money has two meanings.	74
34.	Difference of Profit between Interest and Discount.	76
35.	On Rate of Interest.	78
36.	Rent and Interest analogous	79
37.	Differences in Rate of Interest	80
38.	Smith and Hume on Rate of Interest	83
39.	Effect of increase of Money on Interest.	87
40.	How an increase of Money affects Prices and Interest	88
41.	Hume on Rate of Interest	89
42.	Effects of Banking on Interest	91
43.	The Popes on Usury	93

PAGE.

§ 44. Rates of Interest in *le petit commerce* 96
45. Effects of change in Rate of Interest 97
46. Same actual Rate from opposite causes 98

CHAPTER XIII.

ON LABOUR, OR IMMATERIAL WEALTH, AND WAGES.

§ 1. Definition of Labour 100
2. Labour is a Commodity 101
3. Answer to Le Trosne 101
4. Smith admits that Labour is Wealth 102
5. J. B. Say classes Labour as Wealth 103
6. Self-contradiction of Mill 104
7. Estimate of Wages paid to Working Classes 107
8. Different kinds of Labour incommensurable 107
9. Smith on Labour as the Measure of Value 108
10. Error of this doctrine 109
11. Error of confounding the *Measure*, with the *Cause*, of Value . 110
12. Errors of Ricardo and McCulloch 110
13. Self-contradiction of McCulloch 112
14. Erroneous doctrine of Ricardo 113
15. Productive Labour 115
16. Definition of Wages 116
17. Error of Mill on Rate of Wages 117
18. On Wages 119
19. The alleged Wages Fund 120
20. The Wages Fund 121
21. Mr. Longe on the Wages Fund 123
22. Erroneous doctrine on the Wages Fund 124
23. The true Wages Fund 126
24. Credit part of the Wages Fund 128
25. Self-contradiction of Smith as to price of food regulating Wages 129
26. Similar error of Ricardo. 131
27. Relation of Wages and food 132
28. Wages governed by the Law of Demand and Supply . . 134
29. When the price of food fell, Wages rose 134
30. Way of raising Wages 135
31. Similar testimony of J. B. Say 136
32. Smith on Wages 136
33. Error of Smith 137
34. Smith's third case 138
35. His misanalogy regarding a lottery. 138
36. The same continued 139
37. An expensive professional education is incurred because the rewards are high, and not the reverse 138
38. Value is the inducement to Labour 140

		PAGE
§ 39.	Specious error of Say	140
40.	Further examples of this law	141
41.	Value is determined by the result	142
42.	Fallacy of Ricardo regarding gold and silver	142
43.	Further examples	143
44.	Value of pictures, statues, &c.	144
45.	Error of some Railway Companies.	144
46.	Value may diminish as cost of production increases	144
47.	Error that cost of production regulates Value	144
48.	In many cases Value regulates cost of production	145
49.	Fallacy in which many Strikes originated	146
50.	Wages usually high when food low.	147
51.	Strikes founded on erroneous doctrines of Economists	148
52.	Examples of Value regulating Cost	149
53.	On the DIVISION OF LABOUR	153
54.	Error of Smith on the origin of the Division of Labour.	156
	Instances of Division of Labour among animals	157
55.	Examples of the Division of Labour	161
56.	Example from Say.	164
57.	Examples from Babbage.	165
58.	Smith on the Division of Labour	170
59.	Error of Smith	175
60.	On Rate of Wages and Cost of Labour	172
61.	On Mill's fourth proposition on Capital.	179
62.	On the Workman's Share of the Price	188
63.	The limits of Wages	191
64.	Unpopularity of Economics	192
65.	The *Droit au Travail*	195
66.	Mr. Rupert Kettle on the Wages Fund	196
67.	Relation between Labour and Wages	197
68.	Producers and Consumers necessary to each other.	199

CHAPTER XIV.

ON RIGHTS, OR INCORPOREAL WEALTH.

§ 1.	Rights are Wealth.	202
2.	Smith classes Credit as Capital	206
3.	Smith admits that abstract Rights are Wealth	208
4.	Say classes abstract Rights as Wealth	209
5.	Mill admits that Credit is Capital	211
6.	Different kinds of Transferable Property	214
7.	Transfer of Incorporeal Property by means of INSTRUMENTS	216
8.	Same varieties of Incorporeal as of Corporeal Property.	217
9.	Incorporeal Property of two kinds	218
10.	On Rights of Obligation	219
11.	On Annuities	221
12.	On the Funds.	225
13.	Errors of Mill	227

PAGE

14. Refutation of Mill 234
15. The Funds are Property 237
16. On Tithes 241
17. History of Tithes 243
18. Origin of Tithes in England 247
19. Interest of the Clergy in Tithes 249
20. On the Right of Tithes 249
21. Tithe Commutation Acts. 255
22. Policies of Insurance 257
23. On Rights of Expectation 258
24. Capital and Shares of Commercial Companies . . . 258
25. Property in Ideas 269
26. No patent in a general principle 270
27. COPYRIGHT 270
28. PATENTS 276
29. GOODWILL of a business 279
30. PRACTICE of a profession 279
31. TOLLS, FERRIES, and STREET CROSSINGS 280

CHAPTER XV.

THE THEORY OF THE EXCHANGES.

On Mill's doctrine of International Trade and International Values.

§ 1. Mill's doctrine of Value contrary to the Principles of Physical Science 281
2. Error of Mill's doctrine of International Values . . . 284
3. Exchanges between Lille and Ghent 284
4. There can be only one General Theory of Value . . . 284
5. Error of the Ricardo-Mill Theory of Economics . . . 284

ON THE THEORY OF THE EXCHANGES.

1. DEFINITION of the Exchanges. 286
2. Difference between Money Changing and Banking . . 286
Definition of PAR of EXCHANGE 288
Depreciation of the Coinage causes a Fall in the Foreign Exchanges 289
This disturbance of the Exchange expressed in two ways . 290
3. No true Par of Exchange between Countries which use different standards 290
The NOMINAL EXCHANGE and the REAL EXCHANGE. . . 291
Rule to ascertain the true state of the Exchange when the Currency is depreciated 292
4. ON THE NATURE OF AN EXCHANGE 292
Par time of Exchange 294
5. On FOREIGN EXCHANGES 295
On Fixed and Variable Price 296
Table of Exchanges 296
6. On the LIMITS of the VARIATION of the EXCHANGES . . 298

PAGE

§ 7. Effects of an INCONVERTIBLE PAPER CURRENCY on the Foreign EXCHANGES 299
A Rise in the Market or Paper Price of Bullion above the Mint Price, and a continuous state of the Foreign Exchanges below the limits of the Real Exchange, are the proof and the measure of the Depreciation of the Paper Currency 303
8. On EXCHANGE OPERATIONS 304
Causes which produce temporary fluctuations of the Exchange beyond the specie points 304
Arbitration of Exchanges 306
9. On the REAL or COMMERCIAL EXCHANGE 307
Two branches of trade in Bullion 308
1. With bullion-producing countries 308
2. With non-bullion-producing countries 308
Movements of Bullion influenced by SEVEN causes. . . 309
Bullion the most unprofitable article of commerce . . 310
Doctrine of the Balance of Trade 311
Examples of trading 312
Causes of an influx or outflow of Bullion 317
10. On the RATE of DISCOUNT as affecting the EXCHANGES . . 323
11. On FOREIGN LOANS, SECURITIES, and REMITTANCES as affecting the Exchanges 324
Examples of foreign remittances 325
12. Payment of the French Indemnity. 326
13. On MONETARY and POLITICAL CONVULSIONS as affecting the Exchanges 332
14. On the MEANS OF CORRECTING an adverse EXCHANGE . . 333
Rate of Discount the most powerful method of acting on the Exchange 334
15. Apparent violation of this Law in 1866 335
Explanation of this case. 336

CHAPTER XVI.

ON SOME THEORIES OF CURRENCY.

§ 1. It is necessary not only to ascertain the true principles of monetary science, but to point out the fallacy of false theories 338
2. One of these may be called LAWISM 338
3. Statement of the question 338
4. Peculiarity of Law's system 339
5. It is a violation of the fundamental conception of a Currency established in this work 340
6. Precursors of Law 340
7. Some account of Law's Theory of Money 341
8. The same continued 342
9. The same continued 342

PAGE

§ 10. The same continued 342
11. The same continued 343
12. The same continued 344
13. The same continued 344
14. The same continued 345
15. The same continued 345
16. The essence of Lawism is that money represents commodities and that paper currency may be based upon commodities; MONEY DOES NOT REPRESENT COMMODITIES, BUT ONLY DEBT, OR SERVICES DUE, WHICH HAVE NOT YET RECEIVED THEIR EQUIVALENT IN COMMODITIES 346
17. The theory of basing a paper currency upon commodities involves the palpable contradiction in terms that a person may buy commodities and keep his money as well . . 347
18. Law's idea 347
19. Law was no advocate of an unlimited incontrovertible paper currency 348
20. The most celebrated examples of Lawism 348
21. Account of the French Assignats 350
22. The same continued 351
23. The same continued 351
24. The same continued 352
25. The same continued 352
26. The same continued 353
27. Extracts from Sir Archibald Alison's History regarding the assignats 353
28. His extraordinary inconsistency 355
29. The same continued 356
30. Practical results of Law's theory 357
31. Fourth example of Lawism—The Bank of Norway . . . 358
32. Fifth example—The American banking convulsions of 1837–9 359
33. The principle of basing a paper currency on the public funds is identical with and is as vicious as basing it on land . 360
34. Fundamental vice of the constitution of the Bank of England 361
35. The consequences of this vicious principle are prevented by its being limited to that single instance 362
36. ON THE THEORY OF BASING A PAPER CURRENCY ON THE DISCOUNT OF MERCANTILE BILLS 362
37. Refutation of this theory by the Bullion Committee . . 363
38. This refutation incomplete 365
39. Demonstration of the fallacy of this theory on the principles of this work 365
40. The same continued 367
41. Specific meaning of over-issue 368
42. Fallacy of the expression "good bills" 369
43. Adam Smith adopts both these currency fallacies . . . 369
44. Bullion as the representative of debt is the only proper basis upon which to found a paper currency 370

PAGE

§ 45. Bullion is the only regulator of its amount 370
46. Specie and credit form the only true circulating medium . 371
47. Specie and credit must always increase and decrease together 371
48. Problem to discover the true mode of acting upon the paper currency 371
49. The rate of discount is the true mode of acting upon the paper currency 372
50. Arguments applicable to the wheat also apply to debt . . 372
51. Effects of the action of this principle 373
52. In all commercial crises production should be curbed . . 374
53. Consequences of violating this principle 374
54. The same continued 375
55. Perverse opposition to this law of nature 375
56. Error of a prevalent theory 375
57. Historical proof of the fallacy of this theory 376
58. Mistaken view of Sir Archibald Alison 376
59. When the foreign exchanges are adverse the Bank must contract its issues 377
60. Consequences of adopting Sir A. Alison's plan . . . 377
61. Absurdity of it 378
62. Other considerations which prove that the rate of discount is the true mode of acting on the paper currency . . 379
63. Advantages of a proper attention to the rate of discount . 379
64. The truth of the preceding principles exemplified in England on various occasions 379
65. Conclusion 380

CHAPTER XVII.

ON THE DEFINITION OF CURRENCY.

§ 1. Bank Act of 1844 based on a peculiar Definition of Currency 381
2. Dooms of the Anglo-Saxons regarding the sale of goods, merchandise, or cattle 382
3. Still in spirit the common law of England 384
4. Rules of Law regarding lost or stolen instruments . . . 386
5. Judicial decisions as to the meaning of CURRENCY . . . 388
All Negotiable Instruments subject to same rule of CURRENCY 389
6. All Negotiable Instruments are CURRENCY 392
7. Bank Credits are "Ready Money" 401
8. Bank Credits are CURRENCY 404
9. Writers who include Bank Credits are Currency . . 405
10. Modern Opinions on Currency 407
11. COBDEN on Currency 410
12. Mr. G. W. NORMAN on Currency 411
13. Lord OVERSTONE on Currency 413
14. Discussion between Hume and Lord Overstone . . . 417
15. TOOKE on Currency 420
16. Colonel TORRENS on Currency 423

PAGE

§ 17. Examination of the modern opinions on Currency . . . 425
18. Legal and Philosophical errors of these opinions . . . 427
19. Consequences of these opinions 431
20. Opinion of M. Michel Chevalier 433

CHAPTER XVIII.

ON THE ORGANISATION OF THE BANK OF ENGLAND: AND ON THE BANK CHARTER ACT OF 1844.

§ 1. Importance of the Bank Charter Act of 1844. . . . 435
2. The Chinese invented Bank Notes 436
Evil effects of Paper Money in China 438
The "CURRENCY PRINCIPLE" asserted in China . . . 444
3. Banks in Europe constituted on the Currency Principle. . 445
4. No English Banks on this Principle 446
5. Law's Theory of Money and the Currency Principle founded on the same error 446
6. Foundation of the Bank of England in 1694. . . . 447
7. The Bank increases its Capital 448
8. This principle erroneous. 449
9. Further increase of Capital 449
10. The Bank suspends cash payments in 1696 and 1797 . . 450
11. Partial resumption of cash payments in 1816 454
12. Total suspension of cash payments in 1819 455
13. Peel's doctrines in 1819 456
14. Provisions of Peel's Act of 1819 458
Misconceptions respecting this Act 459
The Bank resumes cash payments in 1821 461
15. The Bank adopts the Principles of the Bullion Report in 1827 461
16. Method adopted to carry them into effect 462
17. Peel's opinion in 1833 462
18. The Bank's Monopoly of "Banking" 463
19. Failure of the Bank's Theory in 1836 and 1839 . . . 466
20. Condemnation of the Bank Theory 467
21. Peel adopts the modern opinions in 1844 468
22. Provisions of the Bank Charter Act of 1844 471
23. The Bank Act does not carry out the "Currency Principle". 473
24. Arithmetical error of the Bank Charter Act 474
25. Failure of the "Mechanical" action of the Bank Act in 1847 476
26. Explanation of this failure 477
27. The RATE OF DISCOUNT is the true governing power of the Paper Currency. 478
Universal adoption of this principle 482
28. On the causes which compelled the Suspension of the Bank Act in 1847, 1857, and 1866 482
The EXPANSIVE and the RESTRICTIVE Theories. . . . 483
29. The Monetary Crisis of 1793 484

		PAGE
§ 30.	Stoppage of the Bank in 1797.	486
	The Bullion Committee condemn the RESTRICTIVE Theory .	488
	Success of the EXPANSIVE Theory in 1825	488
31.	Peel adopts the RESTRICTIVE Theory in 1844	490
	Failure of the RESTRICTIVE Theory in 1847, 1857, and 1866 .	491
32.	Uniform failure of the RESTRICTIVE Theory	492
33.	Fundamental differences of Principle between the Bullion Report and the Bank Charter Act of 1844 . . .	493
34.	Examination of the Arguments alleged in favour of maintaining the Bank Act	495
35.	The Rate of Discount the supreme power of controlling the Exchanges and the Paper Currency	500
36.	The Directorate of the Bank	501
37.	Mr. Lowe on Commercial Crises	502
38.	Errors of Peel.	504
39.	The Bank Act of 1844 has made all English Banking illegal .	507
40.	The Cheque Bank	510
41.	An Inquiry into the Banking System necessary . . .	515
42.	Natural Laws of Trade	515
	CONCLUSION OF PURE ECONOMICS	520

THE

PRINCIPLES

OF

ECONOMICAL PHILOSOPHY.

CHAPTER XI.

ON RENT *(continued)*.

TRUE DEFINITION OF RENT—INCONSISTENCIES OF SMITH—PERRONET THOMPSON AND MALTHUS—DE FONTENAY—CORN RENTS—METAYER RENTS—RENT OF MINES—RENT OF SHOPS.

1. Several writers have seen the unphilosophical character of the system of Smith, Ricardo, and Mill. Thus Wakefield says[1] —"Those parts of the present very long chapter, which really belong to the subject of rent, are generally considered to form the most defective and erroneous portion of the text. Though this treatise abounds in interesting details, in admirable illustrations and in incidental reflections of the greatest value, which last perhaps contain the germs of the whole truth, still, it leaves no distinct impression as to the nature and causes of rent." What the editor of Bentham's *Rationale of Reward* has said of Adam Smith's entire work, seems to be especially applicable to this chapter. The author has not "simplified his subject by referring everything to one principle; a principle which should bring all his reasonings into a very small circle, and serve to unite into one bundle those observations which cannot be so easily grasped when they are disunited. Had he clearly recognized such a principle, he would have made it the centre of his system: it would have been the foundation upon which he would have erected his whole superstructure, and he would have been spared a multitude of repetitions and windings." His own conceptions are seldom pre-

[1] *Note to Wealth of Nations, B. I., ch.* 11.

cise: sometimes, they are not only vague but contradictory. At one time he seems to fancy that rent exists because "as soon as the land of any country has become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce;" because, in short, the owners of land choose that rent shall be paid: at another time he declares that rent is the highest payment for the use of land, which the tenant can afford to make under actual circumstances, and, consequently, that the amount of rent is not at all determined by the landlord's pleasure. Here he supposes that prices rise because rent increases; there, that rent increases because prices rise. The distinctions, too, which he draws between different sorts of produce, as affording, and not affording rent, and between different circumstances under which the same sort of produce will, and will not, afford rent, though in a great measure perhaps agreeable to truth, still, being made without reference to any guiding principle, have the air of being drawn rather with the view to a display of ingenuity than of truths founded on fact and reason. The richest materials are all but wasted for want of a leading principle whereby to arrange and connect them." It has already been abundantly shewn that these remarks are perfectly true, and the precise purpose of the present work is to establish a system founded upon unity of principle, and to shew that all Economic phenomena are reducible to a single great general law, precisely like the phenomena in any other great Inductive Science.

2. The subject has been thrown into great confusion by an erroneous definition of Rent. "Rent," says Ricardo, "is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil." We have already shewn that this definition is absurd, because the earth has no indestructible powers except extent. From the absurd theory that rent can only arise from differences of soil, it is sometimes defined as "the difference between the unequal returns to different parts of the capital employed on the soil."[1]

Rent, however, is nothing but *reditus*, or *redditus*, income, return, or revenue. It is merely a name which is usually applied to the return or income afforded by some kinds of *fixed* capital, such as lands, houses, water-courses, copyrights, patents, dies for coining,

1 *Mill, Principles of Political Economy, B. III., ch.* 5, § 2.

telegraph wires, &c. In former times the sum paid for the use of money by the Government, or the funds, was called Rent. Thus when Charles II. seized upon the bankers' money in the Exchequer, he promised them a yearly Rent of 6 per cent. This name, though discontinued with respect to the English funds, is still applied to the French funds, which are called *Rentes*, and a French fund-holder is called a *Rentier*.

The word Rent, however, is not applied to all kinds of fixed Capital, but more usually only to that of an immovable nature, such as lands, houses, water-courses, telegraph wires, &c. When the capital is movable though fixed; the word Hire is usually employed. Thus we say to "hire" a horse, a carriage, or plate, or furniture, though, as the horse, the carriage, the plate, or the furniture remains the property of the letter, it is fixed capital to him.

Thus it is seen that Ricardo's objection, that Rent only applies to the sum paid for the use of the original and indestructible powers of the earth, entirely fails: and the definition of it as the "portion of the produce of the earth" is equally arbitrary and erroneous. When we pay rent for a house, or a water-course, or a copyright, or patent, or a telegraph wire, how is that Rent a "portion of the produce of the earth"?

3. We have already shewn that Smith is quite contradictory to himself on the subject of Rent: in one part he says that Rent is a *cause* of price; and in another part that price is the *cause* of Rent.

He is also usually considered to have demonstrated that Labour is the *cause* of all value. But his chapter on Rent contains many striking contradictions to that doctrine. Thus he says a landlord "sometimes demands rent for what is altogether incapable of human improvement. Kelp is a species of sea-weed which when burnt yields an alkaline salt useful for making glass, soap, and for several other purposes. It grows in several parts of Great Britain, particularly in Scotland, upon such rocks only as lie within the high water mark, which are twice every day covered by the sea, and of which the produce, therefore, was never augmented by human industry. The landlord, however, whose estate is bounded by a kelp shore of this kind demands a Rent for it as much as for his corn fields."

Now, if the landlord is enabled to demand a Rent for such a kelp shore, it is quite clear that the kelp must have a value beyond that of the labour employed in obtaining it, and in preparing it for the market. For if all the money realized by the sale of it were required to defray the labour employed, how could there be any surplus for rent? And whence did this value come? Most clearly from the *Intensity of the Demand* and the *Limitation of the Supply*. It is quite clear that the landlord's rent could only come from the excess of the value of the product above the cost of production, or the labour of bringing to market.

4. Smith has given various other instances of a similar principle—"A good stone quarry in the neighbourhood of London would afford a considerable rent"—"The paving of the streets of London has enabled the owners of some barren rocks on the coast of Scotland to draw a rent from what never afforded any before. The woods of Norway and of the coasts of the Baltic find a market in many parts of Great Britain, which they could not find at home, and thereby afford some rent to their proprietors."

Now these instances, which might be greatly multiplied, in which the value of the whole product is clearly and manifestly separable into the cost of the labour of production, and the value of the natural object itself show the profound folly of McCulloch's doctrine—"In its natural state matter is very rarely possessed of any immediate or direct utility, and is always destitute of value" —"Nature is not niggard or parsimonious. Her rude products, powers, and capacities are all afforded gratuitously to man. She neither demands nor receives an equivalent for her favours. An object which may be appropriated or adapted to our use without any voluntary labour on our part, may be of the very highest utility, but as it is the free gift of nature it is quite impossible it can have the smallest value."

5. The products we have been considering existed anterior to any labour being bestowed on them; they were the pure result of the operation of nature, and we have seen that they have a value anterior to, and independent of, any labour being bestowed upon them. But the same principle is manifestly true when human labour precedes the operations of nature. Thus when the husbandman has prepared and laboured the ground, and has placed the

seed in it, his labour ends there. But when the harvest is reaped the value of the crop must far exceed the cost of the labour of sowing the corn; and it is manifest that it is out of this excess of value that all profits and rent must come. Smith therefore justly says[1]—"In agriculture, too, nature labours along with man; and though its labour costs no expense, its produce has its value, as well as that of the most expensive workman."—"The labourer and the labouring cattle therefore employed in agriculture not only occasion, like the workmen in manufactures, the reproduction of a value equal to their own consumption or the capital which employs them, together with its owner's profits, but of a much greater value. Over and above the capital of the farmer and all its profits, they regularly occasion the reproduction of the rent of the landlord. This rent may be considered as the produce of those powers of nature, the use of which the landlord lends to the farmer. It is greater or smaller according to the supposed extent of these powers, or, in other words, according to the supposed natural or improved fertility of the land. It is the work of nature which remains after deducting or compensating everything which can be regarded as the work of man."

6. This doctrine of Smith is manifestly true and consonant to fact, and yet he has been completely misrepresented by Say[2]—"We shall see afterwards that this production which is caused by nature adds to the revenue of men not only a value in use, the only one which Smith and Ricardo attribute to it, but also a value in exchange."—"When one cuts down a tree, the spontaneous product of nature, is not society put in possession of a product superior in value to that which the labour of the woodcutter can procure for it?

"I think therefore that Smith has not on this occasion given a complete idea of the phenomena of production; which has led him to this false consequence, namely, the idea that the value of all products represents recent or former labour of men; or, in other words, that wealth is nothing but accumulated labour; from which comes a second consequence which appears to me equally doubtful, that labour is the sole measure of wealth, or of the value of products."

We have shewn most clearly that Smith does not commit the

[1] *Wealth of Nations*, *B.* 2, *ch.* 5. [2] *Traité*, *B. I.*, *ch.* 4.

absurdity imputed to him by Say; but Ricardo adopts this opinion, and says[1]—"But these natural agents, though they add greatly to value in use, never add exchangeable value, of which Say is speaking, to a commodity . . . they are serviceable to us by increasing the abundance of productions, by making men richer, by adding to value in use; but as they perform their work gratuitously, as nothing is paid for the use of air, of heat, of water, the assistance which they afford us adds nothing to value in exchange."

The reader has only to reflect upon the absurdity of the assertion in this last paragraph. It requires no refutation. It is perfectly manifest that unless the value of the product exceeded its cost of production, there could be no such thing at all as profit or rent.

7. Smith has seen this very clearly in other passages. He says[2]—"It sometimes happens, indeed, that the quantity of land which can be fitted for some particular produce is too small to supply the effectual demand. The whole produce can be disposed of to those who are willing to give somewhat more than what is sufficient to pay the whole rent, wages, and profit necessary for raising and bringing it to market, according to their natural rates at which they are paid in the greater part of other cultivated land. The surplus part of the price which remains after defraying the whole expense of improvement and cultivation may commonly in this case, and in this case only, bear no regular proportion to the like surplus in corn or pasture, but may exceed it in almost any degree; and the greater part of this excess naturally goes to the rent of the landlord.

"The vine is more affected by the difference of soils than any other fruit tree. From some it derives a flavour which no culture or management can equal, it is supposed, in any other. This flavour, real or imaginary, is sometimes peculiar to the produce of a few vineyards; sometimes it extends through the greater part of a small district, and sometimes through a considerable part of a large province. The whole quantity of such wines that is brought to market falls short of the effectual demand, or the demand of those who would be willing to pay the whole rent, profit, and wages

[1] *Principles of Political Economy, ch.* 20.

[2] *Wealth of Nations, B. I., ch.* 11.

necessary for preparing and bringing them thither according to the ordinary rate, or according to the rate at which they are paid in common vineyards. The whole quantity, therefore, can be disposed of to those who are willing to pay more, which necessarily raises the price above that of common wine. The difference is greater or less, according as the fashionableness and scarcity of the wine render the competition of the buyers more or less eager. Whatever it may be, the greater part of it goes to the rent of the landlord. *For though such vineyards are in general more carefully cultivated than most others, the high price of the wines seems to be not so much the effect as the cause of this careful cultivation.*"

Now here we have the doctrine that it is value which is the inducement to labour, most clearly and unequivocally admitted. This is manifestly contradictory to the doctrine so generally attributed to him, that it is labour which is the cause of value. Both these contradictory doctrines cannot be admitted into the same science. There can be only one dominating principle admitted as the basis of the science, and, if true at all, it must be universally true. It is quite impossible that it should be true in some cases, and its opposite true in other cases.

8. We must now request our readers' attention to a subject of the most importance, which is indeed at the basis of the whole science. It is very commonly supposed that Smith's doctrine is that labour is the principle of all wealth, and the cause of all Value: in fact, that wealth is nothing but accumulated labour—a doctrine attributed to him by Say and Ricardo. The preceding extracts shew that such an idea is entirely erroneous. It is of the greatest consequence to understand what his doctrine really is, but to explain it clearly, it is necessary to state the history of ideas on the point.

The Physiocrates maintained that the earth is the sole source of all wealth, and that the labour employed in obtaining the rude produce of the earth is the only species which is productive, by which they meant that it adds to the wealth of the nation. They held that all other labour, such as that employed in manufactures and commerce, is sterile and unproductive, and adds nothing to the wealth of a country. They admitted that the labour adds to the value of a particular product, but they said that the maintenance of the labourers during the period of manu-

facture costs an equal sum, and therefore that there is an equal value destroyed to what is produced, and consequently, upon the whole, there is no addition to value in general. They said that all commerce is merely the exchange of equal values, and therefore it cannot add to value in general. In fact, they maintained that agricultural labour is the only species in which the value of the product exceeds the cost, and therefore augments value in general.

If this doctrine were true, no doubt the Physiocrate doctrine would be true. But it is entirely erroneous. It is a mere arbitrary assertion, which the slightest appeal to facts shews to be absurd. It is a matter of the most common notoriety that manufacturers make enormous fortunes, and that multitudes of cities have become immensely wealthy by commerce. And this comes from the fact that in manufactures the value of the product exceeds the value of the cost; and out of this excess comes all profit, precisely in the same manner as it does in agricultural industry.

9. These extraordinary doctrines of the Physiocrates, so contrary to the plainest facts, provoked a reaction, and the main object of Smith's work was to refute them, and to demonstrate that Labour and Commerce are productive, as well as agriculture. And, as usually happens in scientific reaction, error proceeds from one extreme to the other.

In order to mark the opposition of his system to that of the Physiocrates, Smith begins his work—"The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life, which it annually consumes, and which consists always either in the immediate produce of that labour, or in what is purchased with that produce from other nations." And, though he gives no actual definition of wealth, he constantly speaks of the "annual produce of land and labour" as the real wealth of a country. We have already shewn how inconsistent his subsequent doctrines are with such a definition.

Now, even if it were true that Labour is the sole source of wealth—which it is quite easy to shew is erroneous—and that all wealth is obtained by labour, it does not follow from that doctrine that all VALUE is the sole result of labour: and this appears most clearly from Smith himself.

It might perhaps be said that the wealth of the agriculturist is derived from his labour. Unless he prepares and labours the ground and sows the crop, he can have no harvest, and no wealth.

So with the owner of the quarry or the kelp-shore, unless labour is bestowed in obtaining and preparing the produce of nature, there will be no wealth, and therefore labour might perhaps be called the source from which their wealth flowed. But is all the VALUE of the product due to Labour? That is, have they no value beyond the labour bestowed upon them? We have seen most clearly that Smith expressly admits that these products have a value in excess of the cost of producing them. Hence, in these, and in numerous other cases, there is a very considerable part of the value of the product which can by no possibility be said to be due to labour. And whence does this value arise? Simply from the Intensity of the Demand and the Limitation of the Supply. Now, if there were no Demand for the product it would not be wealth, however much labour had been bestowed upon it. But where there is a demand it is wealth. Hence it is clear that Demand is the sole essence of all value, and that Labour is only the accident. It is clear that the product has not value because labour has been bestowed upon it, but labour is bestowed upon it because it has value. As Condillac says, things have not great value because they have cost much, but people bestow much cost upon them because they have great value; and Whately says that pearls have not a high price because people dive for them, but people dive for them because they have a high value, *i. e.*, people will give a great deal to possess them. So timber trees and cattle have a value, though no labour was ever bestowed on them A diamond picked up by chance has precisely the same value as if it had been found after a year's labour. And this shews the entire absurdity of McCulloch's doctrine that the products of the earth are always destitute of value. For that would mean that no one would give anything to possess them before labour has been bestowed upon them: a doctrine so absurd that it requires no refutation. Hence we see that *all* Value depends exclusively on the Demand and the Supply of the product, quite independently of the labour bestowed upon it. Hence it is not Labour which is the *cause* of Value; but Value which is the inducement to Labour, as we have so often inculcated: and all changes in Value arise from variations in the Intensity of Demand or the Limitation of Supply: and all Profit arises from the Demand for the product being so great, and the Supply so limited, that its Value exceeds its cost.

10. We thus see the fundamental objection to Smith's system, or rather his utter want of system. It is utterly wanting in uniformity of principle. Each class of cases is explained by different principles, which is manifestly contrary to the fundamental nature of Natural Philosophy.

Colonel Perronet Thompson, who was a good mathematician, published a pamphlet entitled "*The True Theory of Rent in opposition to Mr. Ricardo and others*," in which he maintained that the simple cause of rent is everywhere the same as that which gives rise to the rent of the vineyard which produces Tokay. That this must be true is manifest to any one who has the slightest notion of a Physical Science. But it is very surprising that Malthus, who was also a good mathematician, should dispute this. He says[1]—"First: That the price of Tokay is not a necessary price, the same quantity would be produced although the price were considerably lower.

"Secondly: That neither the purchasers of Tokay, nor the cultivators of it, live upon the produce.

"Thirdly: That there is no limit to the price of Tokay but the tastes and fortunes of a few opulent individuals.

"How, then, can it possibly be said with truth that the simple cause of rent is everywhere the same as that which gives rise to the rent of the vineyard which produces Tokay? and how entirely inapplicable is a reference to Tokay as an illustration of the true theory of Rent!"

It is amazing that so able a man as Malthus should bring so flimsy an objection against the manifest truth of Thompson's doctrine. Malthus's knowledge of mathematics should have shewn him that it could by no possibility be anything else than true.

He says that neither the purchasers nor the cultivators of Tokay live exclusively upon the produce. But neither do the producers nor the purchasers of any other article whatever live exclusively upon it. The cultivators and purchasers of corn do not live exclusively upon corn. The purchasers and cultivators of kelp do not live upon kelp. The producers and purchasers of stones from quarries do not live upon the stones. The producers and purchasers of shoes, cloth, or any other manufactures, do not live upon cloth or shoes. The growers and purchasers of cattle do not live exclusively on meat; and so on of all other products; no

[1] *Principles of Political Economy, ch.* 3, § 2.

person can live upon any single product. The producers and purchasers of all these things do not live upon them *directly*, but upon them *indirectly*, *i. e.*, upon their VALUE, that is upon the various things which they can get in exchange for them.

The cultivators of corn must have meat and clothing and many other things besides bread, which they obtain by exchanging a certain portion of their corn for these things; and the surplus value of the corn which remains beyond that maintenance is what gives profit and rent.

So it is with shoes or any other product. Persons do not live upon them directly; but indirectly, by obtaining what they want in exchange for them, and the surplus value which remains after providing for their maintenance is profit.

It is manifestly precisely the same with Tokay. The producers of it must exchange away a certain portion of it to provide for their maintenance; and its surplus value above that gives profit and rent.

Now it is manifest that the whole value of the product is due to the Intensity of Demand and the Limitation of Supply: and the greater the Demand and the greater the Limitation of Supply is, the greater will be the Value, the greater the surplus, and the greater the Profit and Rent.

Hence it is precisely the same principle in all products whatever; in Tokay, in corn, in kelp, in quarries, in cattle, in shoes, in manufactures of all sorts; it is the ratio of Demand and Supply alone which determines Value; and the greater the Demand and the less the Supply, the greater will be the surplus above cost. It is in all cases only a difference of degree, and not a difference of principle.

If the supply were greatly increased the Value might so much diminish, that not only there might be no profit at all, but not even sufficient to defray the cost, and then production must cease. Formerly the preparation of kelp was protected by very high duties on barilla and salt. In consequence of this great quantities of kelp were manufactured in the Western Islands and Highlands of Scotland, and brought great revenues to the proprietors. The kelp-shores of one island, North Uist, let for £7,000 a year; and about 20,000 tons were made in Scotland, which sold for about £20 a ton. After the war the duties on barilla and salt were repealed. Barilla was so much cheaper and of such superior quality,

that the value of kelp immediately diminished; at last it ceased to be produced, and most of the unfortunate proprietors, whose incomes came principally from kelp, were totally ruined. Now, the cost and the qualities of the kelp remained exactly the same as before; but its value was diminished by the greater cheapness and superior qualities of barilla. And since then barilla itself has, in its turn, been almost entirely superseded by the superior quality and cheapness of artificial soda.

The very same principle appears from Ricardo's theory of Rent. The actual quantity of corn necessary to support the producers remains exactly the same whatever its value may be. But as the corn, at whatever cost produced, sells for the same price in the same market, the portion of it produced with the least cost leaves the greatest margin between cost and value, out of which all Profit and Rent comes; and this excess of Value is entirely due to the Intensity of the Demand and the Limitation of the Supply.

Thus the same principle governs all cases whatever, in strict accordance with the principles of Natural Philosophy: and the value of every product, invariably and at all times, depends exclusively upon Demand and Supply.

From this it follows that if all landlords were swept away the consumers receive no benefit. The products of the earth would not be sold the least cheaper. There would be exactly the same Demand and exactly the same Supply, and therefore the value would remain the same. It can make no manner of difference to the consumer whether the whole profits go to the farmer alone, or whether they are divided between landlord and farmer.

It is precisely the same with a capitalist and a trader or manufacturer. These latter almost invariably carry on their trade by means of money borrowed at interest. But the interest is not a cause of price, but must come out of profits. If the trader traded on his own money, he and others would endeavour to limit the supply so that the value of the product would afford an interest for the capital; and whether he takes that interest himself, or divides it with a capitalist, can make no difference to the consumer.

Thus we see that Nature alone give quantities and qualities, but man alone gives Value; and whether Agriculture, Commerce, and Labour are productive, *i. e.*, produce a profit, or not, depends upon exactly the same principle, that is, whether the Intensity of the

Demand, and the Limitation of the Supply of the product or the labour are so great that their VALUE exceeds the cost of production, or maintenance.

11. Smith notices the high rent paid for land in some parts of Shetland[1]—"The sea in the neighbourhood of Shetland is more than commonly abundant in fish, which make a great part of the subsistence of their inhabitants. But in order to profit by the produce of the water they must have a habitation upon the land. The rent of the land is in proportion, not to what the farmer can make by the land, but to what he can make both by the land and the water. It is partly paid in sea-fish; and one of the very few instances in which rent makes a part of the price of that commodity is to be found in that country."

It is quite clear that it is exactly the reverse, and that rents in Shetland are paid out of the bountiful supply of fish. It is surprising that Smith did not see that fishermen everywhere else must have a dwelling on land, as well as in Shetland, for which they must pay rent. And rent must bear the same relation to price everywhere else as it does in Shetland. Why should rent form a part of the price of fish in Shetland and not elsewhere? How is it possible that the Laws of Value can be fundamentally different in Shetland to all the rest of the world? This is just one of those examples which has brought the Science of Economics into such disrepute, because Economists, from want of a scientific education, make the whole subject a mass of contradictions and peculiarities, without any great fundamental principles. But the fault is evidently not in the subject but in the manner of treating it.

A dwelling near the sea is necessary for the fishermen. The sea is part of their domain out of which they make their profits; and it is the abundance of the fish which enables them to pay a high rent for the land. And the rent no more enters into the price of the fish than the rent of corn land enters into the price of corn.

Rent in this case, as in all other cases of trading rents, arises out of the competition for a position by means of which profits may be made.

12. A French writer, M. de Fontenay, has seen this truth very clearly. He says[2]—"It may be as well to say something here of

[1] *Wealth of Nations. B. I., ch.* 10. [2] *Du Revenu Foncier, p.* 260.

one of the most striking instances of the advantages of position. I mean the high price paid for buying or hiring spaces in a great city. Some Economists have thought they see in that the rent of land: they have let themselves be duped by a word, as Montaigne would say. To think that it is really for a piece of land that one pays in Paris two or three hundred francs the metre, is as if one were to think that in buying the number of a hackney coach it is for three yellow numbers that he pays six to eight thousand francs —and that when a notary sells his practice, it is a double knob of gilt copper, twenty paper cases or so, five or six shabby tables, and a bad earthenware stove, that he sells for 500,000 francs. The space of ground, like the number, the practice, is only a representative sign of the acquired rights, a title to advantages and profits which may be discounted. What one pays for in the price of the space of ground is a share in the enjoyment of innumerable improvements of an advanced civilization: it is an immense opportunity to exert oneself and to shine, to know and to be known. It is a powerful agglomeration of rich consumers if one is a producer; of producers and products of all kinds if one is more especially a consumer. It is a multitude of free enjoyments, the pavement, the *trottoirs*, gas, water, *fêtes*, theatres, palaces, walks, museums, shops, libraries, marts of all kinds of wealth, material and intellectual. The inhabitant of Paris who gives up to a stranger his share in these advantages has the perfect right to sell them to him at a good price. For it is he, or they whose right he represents, the citizens of a great city, who have gradually made it what it is. It is they who by their labours, their sacrifices, their struggles of every kind, by their gold or by their blood, have acquired and paid for these rights, this security, this progress, this public luxury, these works of general utility, these refinements of civilization, this immense development of intellectual and material life."

And de Fontenay most justly says in other parts of the same work —"Wherever there is a revenue you perceive capital"—"The theory of revenue must be the same for all classes of human production.

"Unfortunately this simple and sensible idea has been falsified by the spirit of system. Ask an Economist who knows the masters by heart what revenue is; and he will answer: that industrial revenues, the net profits of the forge, of manufactures, of banking

and commerce, &c., are the profits of *capital;* but that the income from land,—the net profit of the farm or the vineyard,—is quite another thing ; that that is the price of a monopoly, a payment for the productive powers of the earth, a continued increase of the price of products, of interests opposed to the general interest; in short, of fundamental laws and essential phenomena so radically different to the laws and phenomena of production generally that it has been necessary to make a separate division in the Science, and an entirely exceptional theory for the income from land; or, as it is called, the rent of land.

"We propose here to abolish these false distinctions, incompatible with the character of harmony and simplicity which the laws of Economics ought to have, and to prove that there is one, and only one, law of value, income, and capital under all its forms."[1]

Again[2]—"It is known that Economists who have attributed one part of the value of products to the action of natural agents have confined the application of their theory to a single class of phenomena—that of the appropriation and cultivation of the soil.

"It is not surprising that the human mind thus proceeds by particular cases. It is quite natural that the analysis of production should begin by the first of human products.

"Of all the instruments of labour, in fact, the most indispensible, the most universally and the earliest employed, and consequently the most obvious, is unquestionably that most complicated instrument called *the earth.* Divided in its extent, varying in its powers, and its aptitudes so rigorously limited, so unequally divided among nations, families and persons, that the possession or the desire for a greater part has in all ages been the principal object of wars and human discord, the earth everywhere, and at all times, has presented the phenomenon of profit under its most visible—and I will say also its most obnoxious—form; because from the earliest antiquity, entire castes have lived upon the rent of land, freed from all labour by this excess of the labour of their fellow-men. Not only is agricultural labour the most ancient and the most important of all, but among many people it has been, and still is among some, the only industry properly speaking. Not only is landed property the most visible form of capital, but it has long been, and still is in backward countries, the only capital—including, of course, landed capital, cattle capital, and slave capital, which

[1] *Du Revenu Foncier, p.* 2. [2] *Ibid., p.* 18.

are attached to it. The elevation of other branches of human industry to the rank of property is a fact so recent in the history of the world, that it is quite natural that the property and income of land have been studied, regulated by legislators, discussed by philosophers and statesmen, long before any other form of property and income.

"When Economic Science was founded, it was therefore to agriculture and extractive production that it first gave its attention. When it entered upon a wrong path in attributing production and value to nature, all the errors and dangers of this system fell exclusively with all their weight on the property in land. It is somewhat strange, but if this error had been generalised it would perhaps have been less fatal and less tenacious: applied only to a particular case, as it has been, it has placed property in land in an exceptional and truly proscribed position. . . .

"That truly is an unpleasant position for the possessors of the soil, and it seems difficult from such premises to draw conclusions favourable to property in land. In fact, it is somewhat badly treated by this school. It is, according to J. B. Say, the least reputable of all property—in fact, it has for its origin conquest, a purely conventional right—it is a tolerated monopoly—a legal fiction, according to J. Garnier—a restriction on the laws of God, according to Scrope—a usurped privilege, according to J. B. Say —its useful purpose is limited, according to Senior, to stretching out its hand to receive the offerings of the community—the class of proprietors' profits at the expense of the others, according to Buchanan—its interests are constantly opposed to those of the rest of society, according to Ricardo—&c., &c. As for the rent of land, it seems that the *delenda Carthago* has been pronounced against it: one of the wittiest disciples of Ricardo calls it the product of a series of outrages against property from the earliest antiquity: many Economists flatter themselves that they can make it disappear by means of Free Trade:—Ricardo, Mill, &c., to make sure of this, have proposed to confiscate it legally by taxation: one of our official Economists has even written, we are coming to the time when all proprietors will be forced to cultivate or to sell, if they wish to have a revenue."

Again[1]—"I certainly need not remark how nearly the passages I have just quoted approach the most aggressive eccentricities of

[1] *Du Revenu Foncier*, p. 23.

Socialism. The difference here between the mortal enemy of property and its pretended defenders is, that *they* treat it as a parasite, a usurper, and a mendicant, while he bluntly calls it robbery—that M. Proudhon wishes to make all revenue disappear, and the others only suppress *rent*, which is, in their definition, only a part of revenue.

"Undoubtedly, then, this doctrine openly attacks property in land. Will the abolition stop there? The Economists of this school have thought that in limiting the application of their principle to one case they could say to logic—you shall not go further than we do. But logic laughs at their impotent authority; and it is easy to see that all property, both movable and immovable, is brought into question by the same attack.

"Since then, in fact, it is necessary to distinguish two independent agents in production, man and nature, two associates of whom one appropriates the wages of the other; instead of recognizing only one agent, one voluntary and responsible active power —man, and an instrument inert, passive, indifferent to the good or evil of the result, and consequently unpaid—nature. Immediately that the merit and the value of the work is attributed to the means of action, and not to the actual cause—to the force which obeys, and not to the will which commands—to unconscious matter, and not to the intelligence which foresees and directs; this principle, good or bad, must be followed out to the end. We must see in all classes of production that which emanates from the thinking producer, and that which is the work of the unintelligent producer—in short, we must distinguish in the collective result the share of man and the share of the natural agent. For it is not in agriculture only that these natural agents appear: they most clearly act everywhere along with man, because everywhere man can only act by means of them, and everywhere they act in the same way. Human industry employs as aids light and heat, wind and waterfalls, the properties of imponderable fluids, mechanical and chemical action, innumerable combinations, in short, laws, movements, affinities, and throughout the infinite variety of physical phenomena, the forces of nature present themselves with the same Economical characters as in agriculture. They are indispensable to production; they cannot be utilized without being appropriated: they are limited in their use and extent; unequal in power, &c. The profit of the manufacturer, like that of the

agriculturist, results from their assistance, and is proportional to the extent and energy of their action. For if one manufacturer produces more, that is, at less cost than his neighbours—all personal qualities being the same—it is always because there they employ a man whom they must pay, he employs a natural agent, whom he does not pay. And since this economy in the cost of production only benefits him, as he, of course, sells exactly at the same price as his competitors with inferior processes, it is clear that he intercepts and appropriates the wages of his inanimate worker, and this interception exactly constitutes his superior profit.

"Hence in manufactures the differences of power among the agents employed are enormous, and so are the differences of profit which result from them.

"In the transport of merchandize, for instance, what a shocking inequality of power between the shoulders of a porter, horses and and wagons, and a railroad! In spinning what manual skill can turn the spindles or the wheel with the speed of mechanism? Be honest then—in manufactures, perhaps even more than in agriculture, it is the instrument which causes production. If, therefore, you attribute the power of the instrument to nature, the share which nature can claim in these profits is greater than in any others; and the greater profits of manufactures and commerce ought to be called *rent*, and the monopoly of *natural agents*, just as much as the moderate profits of 3 or 4 per cent. in agriculture. In short, in every kind of production you have the same mechanism, the same combination of the action of men with the action of nature, the same differences in the rate of profit, the same influence of the instrument and capital over the result. More than that, you have the same form in the division of the profit, you have the sale, the loan, and the lease; the proprietor and the farmer, the capitalist and the worker, he who furnishes the instrument and he who uses it; he who produces and he who only 'stretches out his hand to receive profit.' Either it must be clearly said that one has two weights and two measures; that one is determined to find quite right in one case what is abominable in another, or we must apply strictly to the profits of manufactures the severe analysis applied to the profits from land; we must extend to profits and interest (which only proceeds from them) and to capital this accusation of monopoly, of usurpation, of parasitism, which we have just seen so clearly expressed against rent and property in the soil.

"Thus we see all property, movable and immovable, destroyed, struck with the same charge of original injustice, and all reduced for protection to some article in the Code. It is not only as is now proposed that all rent must be confiscated by taxation, it is profits from manufactures and interest which must be attacked by a radical reform."

Again[1]—"But simple as it is this way of looking at *produit-net*, profit, revenue, and their consequences, must necessarily escape all those who, like Ricardo, Rossi, Sismondi, Proudhon, &c., define Value as the 'quantity of labour,' and measure it by cost of production.

"In fact, profit is precisely the excess of selling value, or actual value, above the cost of production or theoretical value. They then consider it as an anomaly, a robbery, an iniquity. Hence these distortions and contradictions into which they have all more or less fallen. Ricardo himself has fallen into it headlong with a curiously blind simplicity. The *produit-net* has, as is well known, three principal manifestations, rent of land, profits of manufactures, and interest of capital. Ricardo—in *rent* explains it by monopoly and the price of natural agents—in *profits* by a deduction by the employer from the wages of labour—in *interest*—he never suspected that it is the same problem: he admits interest as indisputable: educated and brought up on the London Exchange, from 3 to 5 per cent. was probably for Ricardo an article of faith. Proudhon, a much stronger and more daring logician, did not deceive himself as to the identity of the three words, *rent*, *profit*, and *interest:* he has quite correctly placed them in the same class as *produit-net*—a service or product sold above its cost of production. And since, according to him, Ricardo, Rossi, Sismondi, &c., the cost of production is the theoretical measure of value, and is the just value, naturally all *produit-net* appeared to him an iniquitous deduction, and he says that *rent*, *profit*, and *interest* are robbery,—and I do not know how to reply to Proudhon, if you admit that Value is defined by the quantity of material labour, and measured in each particular case by the cost of production."

Now, without finding it necessary to agree with all that M. de Fontenay has said in his remarkable volume on Rent, he has at least pointed out the fundamental fallacy of breaking up Economic phenomena into separate classes and finding a separate law of

[1] *Du Revenu Foncier*, p. 191.

value for each; and he has shewn most irrefragably that rent, profit, and interest all proceed from the same cause—the excess of the Value above the cost of production, which can only be effected by the Intensity of the Demand and the Limitation of the Supply.

They all stand or fall together, and if the State has the right to confiscate the one it has the right to confiscate the others; and we earnestly commend M. de Fontenay's volume to the attention of those who believe in Mill's scheme of confiscating the rent of land.

13. The Rent of land is an excellent example of the general Equation of Economics. Rent is the money paid by the farmer to the landlord for the use of the land. The first indispensable condition of rent arising is, that one person is the owner of more land than he can conveniently cultivate himself. A landlord is a capitalist whose capital consists of land; and, like all other capitalists, he either trades with it himself or lets part of it out to others to trade with, and of course he is entitled to receive interest for the use of his capital like any other capitalist. The difference between a landlord who cultivates his own land and a farmer, is just the difference between the man who trades with his own or on borrowed capital. A man who has a large amount of capital in land is in a very different position to one who has his capital in money, because no single man can trade with any very large amount in land. It is very rarely a man farms more than a thousand acres of land, but many a merchant trades with half a million of money. Now, unless a man can trade with his land himself, or get some one else to do so, it is of no value to him; but if the merchant cannot trade profitably with half a million of money, it will still be useful to him—he can always get some interest for its use, however small. It is, therefore, a positive necessity to a man who possesses a large estate to let part of it out to farmers. No misfortune to a large landed proprietor could be worse than to have a considerable extent of his estate thrown upon his hands at once. Now, this circumstance increases the power of the person who wants to borrow the capital over the one who wants to lend it; it is a greater service done to a landlord to take a farm than it is to a tenant to let it to him. In this case, like as in other loans of capital, we must consider the farmer as the purchaser of the service; but when the capital to be borrowed is land, the power of

the purchaser over the seller is much greater than when it is money. Hence, we must expect that the price of it should necessarily be lower; and this is what we actually find to be the case. The rent of land, or the money paid for the use of that species of capital, is much less than in the safest mercantile operation. There are, no doubt, other causes, which also tend to produce a similar effect, operating simultaneously to increase the difference; but the cause we first assigned is a true cause of a certain amount of that effect, though not of the whole of it. The rent of land rarely exceeds 2½ to 3 per cent. of the value of the land, and is often less than that.

14. During the great revolutionary war, a succession of bad harvests, joined to other causes, produced an enormous rise in the price of corn, so that in 1812 it reached the price of 130s. a quarter. Owing to this extraordinary rise of price, an immense quantity of inferior land was taken into cultivation at an extravagant cost, because the farmers expected that high prices would be permanent. Now, let us suppose that the old lands in cultivation had produced no more than they had done during the years of scarcity, what would have been the necessary consequence of this additional quantity of corn added to the market? As the quantity of land taken into cultivation could only be increased gradually, the first quantity added to the existing supply would not have added much to it. The proportion between the increment and the existing supply would not have been great, consequently it would only lower prices a little, and would leave a large profit to the producer. But the more land that was brought into cultivation, the more would the quantity of corn brought to market be, and the more would prices be lowered. And this might go on until the constantly increasing quantities of corn lowered the price so much, that it would only just leave a profit, and further production would cease. And it is perfectly evident, that it would always be the market price which would indicate how great an expense could be afforded as cost of production. Hence, we see that it was the increased price of corn that called inferior land into cultivation, and it was the increased quantity of corn produced that lowered the market price, until the cost of production and the market price might possibly meet. But whether they did so or not would entirely depend upon the quantity produced.

So, in the Highlands of Scotland, the rent of a sheep-farm depends upon the price of wool and sheep; and not the reverse. A Highland farmer would smile if he were told that the rent he paid raised the price of wool and sheep; when he knew well enough that the rent he could afford to pay depended upon the price of the produce.

Hence, also, we see the utter fallacy of Ricardo's rule, that it is the cost of production under the most unfavourable circumstances that regulates price. The truth is that it is the exact reverse. The price regulates the greatest cost of production that can be afforded, or the most unfavourable circumstances under which production can take place.

15. From these observations we gather that the farmer is just in the same position as the manufacturer; neither of them can command the price they please for the articles they have to sell; consequently they must each consider what will be the probable value of it when sold, and then they must devote the whole of their skill and energy in diminishing the cost of production. In order to do this each of them calls in the aid of science; the manufacturer in the mechanical form of machinery, the farmer in the chemical form of manures and draining, and every other means that science or skill can suggest to develope the productive powers of the earth. Neither of them can fix absolutely what the cost of production is, until every improvement in science has been adopted, and every resource exhausted. It is undoubtedly true that the cost of production and the value of the produce must have a relation to each other, but the question which is to govern the other is the whole difference between protection and free trade. Under the former system, the cost of production might be as extravagant and wasteful as possible; the land might be undrained and badly cultivated, and the object was to secure by law a price which should under all circumstances cover every conceivable piece of waste and bad management, which was, with somewhat of a *mauvaise plaisanterie*, called the *natural* price of corn. While the one system held out a direct reward for every species of mismanagement and ignorance, and stinted production, the other, on the contrary, encourages skill and energy, and stimulates production, and so confers upon the community at large the blessings of as great abundance and cheapness as circumstances permit.

16. Our formula at once explains a fact which is well known to every one who has a practical acquaintance with the management of estates, that it is far more advantageous for a landlord to have his estate divided into farms of moderate size than very large ones, because so many more persons have a moderate than a large quantity of capital, and consequently so many more are able to compete for a moderate sized farm than a large one. The landlord being the seller of the service, his power over each competitor increases according to their number, and he can demand a higher price for it. But if a farm is very large, so few can compete for it, that the landlord's power over each diminishes, and he will usually be obliged to let it low. The same remark holds good in houses, and for the same reason; houses of a moderate size let much better than those of a large one.

17. To many persons it appears an inequitable arrangement that a tenant should pay a fixed sum to the landlord, whatever be the price of corn, which is notoriously an article whose value is of the most fluctuating description. And no doubt to persons who are not much acquainted with the subject, the metayer system may appear to be more equitable. But it is not found to be so in practice. Payment of rent in kind used to prevail to a considerable extent in Scotland. In many parts of the country there are still to be seen large buildings, in which the farmers used to store the rents of the landlord. But the unfortunate landlord, of course, got the worst part of everything. And as civilization advanced this payment of rent in kind was universally abolished, and a payment in money substituted. Now, as the people have universally abandoned payment in kind, and substituted payment in money, it is the best proof that can be had that the latter method is more practically convenient than the other.

But even though the payment in kind of a portion of the produce has been abandoned, and the payment made in money, many schemes have been devised to ensure what appeared to be a more equitable division of profits between landlord and tenant, according to the varying price of corn. And different modifications of this system, which is generally called "corn rents," are in favour in this country. While, in some parts of the country, opinion is much in favour of corn rents, on the other hand, in many other parts of the country which are in the highest state of cultivation,

and where the highest science prevails, corn rents are held in utter abhorrence, and opinion is equally tenacious of fixed rents.

At the first blush of the thing it might appear that corn rents are manifestly the most equitable. To this we say, that so many different systems have been proposed, that it is impossible to give a general answer. Some that have been proposed can be clearly shewn to be most unfair. To give, therefore, a proper answer we must have the particular system that is proposed. But our own observation leads us to doubt whether these corn rents are so advantageous as is frequently supposed. In the first place, as agricultural science improves, the greater is the variety of the produce of the farm, and the greater is the complexity of accounts required to calculate the rent. Besides, we believe that it will be found that there will be less variation in the value of the whole produce of a farm than in its quantity. When the quantity is great the price will be low, when the quantity is small the price will be high, consequently the total money value will probably be more steady from year to year than the whole quantity. And it will be found that farmers in general, at least those of substantial capital, who are most desirable to have as tenants, prefer to have a fixed charge once for all, which they know beforehand, and which they can calculate upon, than a varying one.

18. Ricardo applied his principle of Rent to mines as well as to land[1]—"Mines as well as land generally pay a rent to their owner; and this rent, as well as the rent of land, is the effect, and never the cause, of the high value of their produce.

"If there were abundance of equally fertile mines, *which any one might appropriate*, they could yield no rent; the value of their produce would depend on the quantity of labour necessary to extract the metal from the mine and bring it to market."

To this it may be observed that if any one might appropriate the mines there could, of course, be no rent: because the very condition of rent arising is that the mine is already appropriated by one person and let out to another; so that whether the mines are *equally* fertile or not, has nothing to do with the question.

"But there are mines of various qualities, affording very different results, with equal quantities of labour. The metal produced from the poorest mine that is worked must at least have an ex-

[1] *Principles of Political Economy, ch.* 3.

changeable value, not only sufficient to procure all the clothes, food, and other necessaries consumed by those employed in working it, and bringing the produce to market, but also to afford the common and ordinary profits to him who advances the stock necessary to carry on the undertaking. The return for capital from the poorest mine paying no rent, would regulate the rent of all the other more productive mines. This mine is supposed to yield the usual profits of stock. All that the other mines produce more than this will necessarily be paid to the owners for rent. Since this principle is precisely the same as that which we have already laid down respecting land, it will not be necessary further to enlarge on it."

19. Mill, as usual copying Ricardo, says[1]—"Agricultural productions are not the only commodities which have several different costs of production at once, and *which in consequence of that difference and in proportion to it*, afford a rent. Mines are also an instance. Almost all kinds of raw material extracted from the interior of the earth—metals, coals, precious stones, &c., are obtained from mines differing considerably in fertility, that is, yielding very different quantities of the product to the same quantity of labour and capital."

Now, let us observe the necessary consequence of such doctrines. If the rent of mines arises solely from differences in the fertility of mines, and is only paid in consequence of that difference, it manifestly follows that if all the mines were of *equal* fertility there could be no such thing as rent. A doctrine too absurd to require a moment's refutation. It would be manifestly just as absurd to say that rent is paid for houses because houses are of different sizes; and that if all the houses in a great city, like London and Paris, were of the same size there could not be any such thing as rent: or that freights are paid for ships because ships are of different sizes, and that if all ships were of the same size there could be no such thing as freights: or that wages or salary are paid to men because men differ in capacity, and that if all men were of equal capacity there could be no such thing as wages or salary: and so on in innumerable cases; in short, if the Ricardo-Mill theory be true, prices are only paid for anything because things differ in quality or degree.

[1] *Principles of Political Economy, B. III., ch.* 5, § 3.

Nay more, this doctrine of Ricardo and Mill leads to consequences which are, if possible, even still more absurd. For as they say that Rent only arises from *differences* of fertility between different mines, it would follow that if there were but a single mine or quarry no rent could be paid for it! If this were true, kelp-shores could only have paid a rent because there were shores of different fertility; and if there had been only a single kelp-shore no rent could have been paid for it! Nor is this by any means an imaginary case. There is but a single mine of plumbago in England, and according to the doctrine of Ricardo and Mill no rent can be paid for it; a doctrine at which the owner of the mine would doubtless smile. Nor could any rent be paid for the quarries of Paros, Carrara, or Pentelicus: a doctrine so manifestly absurd as to require no refutation.

But, in fact, Mill has himself entirely overthrown this theory of Rent. He says a little further on—"Whatever be the causes, it is a fact that mines of different degrees of richness are in operation, and since the value of the produce must be proportional to the cost of production at the worst mine (fertility and situation taken together), it is more than proportional to that of the best. All mines superior in produce to the worst actually worked will yield, therefore, a rent equal to the excess. They may yield more, *and the worst mine may itself yield a rent.* Mines being comparatively few, their qualities do not graduate gently into one another as the qualities of land do; and the demand may be such as to keep the value of the produce considerably above the cost of production at the worst mine now worked, without being sufficient to bring into operation a still worse."

Now, if this be true, which it undoubtedly is, what becomes of the doctrine that mines only pay a rent in consequence of their being of different degrees of fertility, and that the Rent is the excess of the more fertile mines above the least fertile one? Is it not obvious from this passage of Mill that the Value of the produce is due entirely to the *Intensity of the Demand* for the produce and the *Limitation of the Supply* of it? And that it is a mere accident that mines differ in degrees of fertility? If *all* the mines pay a rent, how can it be *essential* to Rent that they should differ in fertility? As M. H. Passy truly observes, this is to take the circumstances which make a difference in the *rate* of Rent for the *cause* which produces Rent. The same principle

manifestly governs the Rent of land and the Rent of Mines: only it so happens that the differences of land usually graduate more gently than the differences of mines. But in all cases these differences are the mere *accident* of Rent, and not its *essence*. And so the Ricardo-Mill theory of Rent vanishes into air!

Mill has applied the same theory to fisheries; but after the full consideration and refutation already given of the theory as applied to land and mines it would be superfluous to refute it as regards fisheries.

20. We thus see that the doctrine first positively announced by Anderson, and adopted by all Economists since, that Rent does not influence the price of agricultural products such as corn, is true. Such a product is brought into a common market which no single producer can influence, and therefore he must conform himself to its conditions. A certain general price is necessary to attract a certain supply; and the differences in the cost of production of each particular parcel can have no influence on its price. The supply will be produced so long as its value affords the cost of labour and ordinary profits. No one created the land itself, and therefore remuneration for the use of it is not part of the necessary cost of production: and if any particular parcel of its produce will not afford both ordinary profits and Rent, Rent, of course, will vanish first. The producers of corn are far too numerous to combine to limit the supply. For a considerable time it was attempted to limit the supply of foreign corn by prohibitive or protective legislation, but all such laws have been for ever rendered impossible in this country; and consequently corn will come in from foreign countries so long as the value of it here will yield the ordinary profits of trade.

But where the producers are fewer in number the case is different. The owners of mines of different sorts are comparatively few, and they can without any great difficulty come to an agreement to limit the supply. It has been alleged that the owners of coal mines have on several occasions agreed to limit the supply in order to maintain it at a certain level in order to preserve their rents. Though the same rule would evidently apply to minerals as to corn, if the producers were too numerous to combine. Minerals of all sorts are the free gift of nature, and not the creation of man, and therefore a remuneration for them is not a

part of the necessary cost of production: and if there were no arbitrary limitation of supply they would continue to be produced so long as the producers obtained ordinary profits.

But the case is different with shops. In these Rent does undoubtedly enter into price; because in such cases it is part of the necessary cost of production. No man created the land or the minerals; but shops are not the gift of nature. They are created by the expenditure of capital, which is part of the necessary cost of production, and it must be replaced in the price of the articles. Moreover each shop is a little market in itself, over which the producer has complete command, only controlled by other producers who are all in a similar position. A retail shopkeeper buys his goods at a certain price from the wholesale dealer, and he has a certain price to pay for rent; or if he built the shop himself he must have laid out a certain capital on it, and must have a certain interest on that expenditure. He must also provide for his own maintenance. He expects to have a certain amount of custom; he therefore fixes such a price upon his articles as he estimates will provide for all these things. If he cannot obtain these returns he must give up his business. All his competitors are in exactly the same condition, and thus the producers have the command of the market. The prices which each may fix are only controlled by what he thinks his customers will give, and his fellow-competitors will enforce as well as himself. None of these competitors however can afford to sell below that amount any more than he can. Consequently in such cases rent is a part of the necessary cost of production, as being only the interest on capital expended: and production must cease unless such interest is afforded: and therefore in such cases it necessarily and justly forms a part of price.

It is easily seen that this is true by any one who considers the difference between the prices of fish, fruit, and vegetables as sold in shops where the shop is the fixed capital, and the same articles sold by costermongers in the street, whose only fixed capital is a barrow.

21. What we have said now is sufficient to explain the general principles of Rent, and to shew the entirely unphilosophical nature of Ricardo's theory, which has been adopted by so many Economists in this country, but which the greater number of the more eminent French Economists repudiate. Mill himself acknowledges

that Economics is to be treated as a Physical Science. It is surprising that he did not perceive that Ricardo's system of breaking up the phenomena of Economics into several classes of cases, and explaining each class by a distinct Theory of Value, is just as absurd as it would be to break up the phenomena of Optics into several classes, and to explain each by a distinct Theory of Light.

It is also surprising that he did not perceive that the admissions he makes himself are fatal to the theory he admires so much. When he says[1]—"If the whole land of a country were required for cultivation *all* of it might yield a rent," and when he says that *all* the mines in a country may yield a rent, is not such an admission fatal to the doctrine that differences of advantage are essential to Rent?

If *all* lands and mines can pay Rent how can Rent be "the *difference* between the unequal returns to different parts of the capital employed on the soil," or the "price of the privilege which the inequality of the returns to different portions of agricultural produce confers on all *except the least favoured portion?*"

Thus he in one place defines Rent to be the excess of the returns of all portions above the worst, thereby expressly excluding the worst portion from the capacity of paying Rent, and then he says in another place that *all* portions, even the worst, may pay Rent! Can anything be more contradictory or absurd?

22. Moreover, Anderson's theory of Rent is quite different from Ricardo's, as generally understood. Anderson makes the value of corn spring entirely from *demand*, and the increasing demand lead to the increase of price, which permits additional cost to be bestowed on bringing inferior land into cultivation.

Ricardo makes the increase of price to proceed from the increased labour bestowed on producing the corn, and from the extracts given above it is quite clear that Ricardo's doctrine is that the bringing of worse lands into cultivation must precede, and is the cause of, the increase of the price; and this is the sense which both his opponents, Chalmers and Thompson, and his admirer, McCulloch, attribute to him. But Mill, in accordance with Anderson, says justly[2]—"The higher the market value of produce, the lower are the soils to which cultivation can descend,

[1] *Principles of Political Economy, B. II., ch.* 16, § 2. [2] *Ibid.*

consistently with affording to the capital employed the ordinary rate of profit.

"As, however, differences of fertility slide into one another by insensible gradations; and differences of accessibility, that is of distance from market, do the same; and since there is land so barren that it could not pay for its cultivation at any price; it is evident that whatever the price may be, there must in any extensive region be some land which at that price will just pay the wages of the cultivators, and yield to the capital employed the ordinary profit, and no more. Until therefore the price rises higher, or until some improvement raises that particular land to a higher place in the scale of fertility, it can not pay any rent." Now this no doubt is true, but unfortunately it is exactly contrary to the theory of Ricardo in his chapter on Rent, which Mill declares to be the *pons asinorum* of Political Economy!

23. We have thus shewn that Mill contradicts himself on the very definition of Rent, and that Ricardo's theory, which he so much extols, does not account for the existence of Rent, but only for the differences in its amount. And it needs no ghost to tell us that lands which possess superior advantages of fertility and situation will pay a higher rent than inferior lands; and this is all that Ricardo's theory of Rent really amounts to.

But Ricardo is contradictory to himself. In his chapter on Rent he most clearly makes the price of corn to depend on the cost of producing the worst portion of it: and that it is bringing inferior lands into cultivation which raises the price of corn, and enables Rents to be paid on the superior lands.

But in combatting Malthus he says precisely the reverse[1]—"It is the rise in the market price of corn which alone encourages its production; for it may be laid down as a principle uniformly true, that the only great encouragement to the increased production of a commodity is its market value exceeding its natural or necessary value." This doctrine is manifestly contradictory to his other theory.

In fact, as soon as it is admitted that *all* lands and mines can pay Rent, Ricardo's Theory, as well as all Theories of Rent that make *differences* of advantage as *essential* to the payment of Rent, vanish into air. For they wholly fail to account for the Rent of

[1] *Principles of Political Economy, ch.* 32.

the worst portion. But when we adopt the General Law of Value, or the General Equation of Economics we have obtained, the whole subject becomes clear and harmonious. The Value of the product is determined, like as in all other cases, exclusively by the General Law of Supply and Demand; and if the Value is sufficiently high, all lands and mines may pay rent; and whether or not there are differences of advantage in various lands or mines, or not, is a mere accident, quite independent of the General Theory.

Ricardo has also contradicted himself on the only really important point in his theory. In his former chapter he maintains that the payment of Rent does not affect the general price of corn: that the cost of producing the worst portion regulates the price of the whole: that if the landlords did not receive their rents the farmers would; and that, therefore, the division of the profits between landlords and farmers in no way affects the consumer, but if the landlords gave up their rents they would simply go into the pockets of the farmers.

But in the chapter combatting Malthus he says that he agrees with Sismondi and Buchanan in saying that "rent is a value purely nominal, and as forming no addition to the national wealth, but merely as a transfer of value, advantageous only to the landlords, and proportionably *injurious* to the consumer."

Now, here he says that rent is *injurious* to the consumer; the meaning of which is that it increases the price of corn, and that if landlords gave up their rents corn would be so much the cheaper; a doctrine which is a most plain and striking contradiction to his other theory, and which we have shewn to be untrue.

24. Now, this is not mere logomachy. It is a fundamental difference between two distinct systems of Economics. We have shewn that Smith and Ricardo are contradictory to themselves on the very fundamental conceptions of Wealth and Value.

What can be more contradictory and absurd than for Smith to assert[1]—"Labour, therefore, it appears evidently is the only universal, as well as the only accurate, measure of value, or the only standard by which we can compare the values of different commodities at *all times and all places*"—and then to say that there are products of the earth which have a value far beyond any labour that was ever bestowed on them—then afterwards to assert that

[1] *Wealth of Nations, B. I., ch. 5.*

unless they are exchangeable they have no value at all, whatever labour may have been bestowed on them—and then to admit that Bank Notes have the value of money, when no labour is bestowed on them?

If labour is the sole measure of *all* value at *all* times and *all* places, how can Money and Bank Notes be of exactly equal value, when the one is due entirely to labour, and the other is not in any way due to labour?

What can be more contradictory and absurd than for Ricardo in one place to assert that it is the labour of producing the worst portion of corn that regulates the price of the whole quantity of corn, and that the payment of rent in no way affects the consumer, —and in another place to say that it is the increased price of corn which enables worse portions of corn to be produced, and that the payment of rent is *injurious* to the consumer?

If, as Ricardo says, the theory of the Rent of Mines is exactly the same as the theory of the Rent of Land, and if, as he says, Rent only proceeds from decaying fertility, and the application of equal portions of capital with decreasing returns—how could it be possible that a single mine or quarry in which there are no differences of returns should be capable of yielding a Rent? It is surprising that the absurdity of this doctrine, which is the logical consequence of this theory of Rent, did not strike Ricardo and Mill, and shew them the entire fallacy of the whole theory.

25. We have seen that Smith, Ricardo and Mill are entirely contradictory to themselves in the very fundamental conceptions of the Science. In some parts of their works they make labour to be the essence of all wealth, and of all value, and they refuse to consider as wealth anything except material things produced by labour; and they consider the Value of a thing to be simply the labour embodied in it.

But in other parts of their works they admit that it is precisely the contrary. They see that Value proceeds from *Demand*, and that it is not *Labour which is the Cause of Value*, but *Value which is the Inducement to Labour*. We have shewn that all ancient writers unanimously agree that the essence of wealth consists in *Exchangeability* exclusively, a doctrine which even those writers who have dwelt so much on Labour are constrained to admit.

Now, when we adopt exchangeability as the fundamental con-

ception of wealth it makes the Science immensely more extensive than the conception which bases it on Labour and Materiality. For there are innumerable things, even material, which are exchangeable, and which are not the produce of labour. It is this fundamental idea which renders the Theory of Credit intelligible; which consists in the exchange, or commerce, of Debts, valuable property, which are bought and sold, though they are neither material nor the produce of labour.

Thus when Wealth and Value are relieved from the shackles of Labour and Materiality, and based on the single idea of Exchangeability, Economics becomes for the first time a General Science, with a strictly defined purpose and limit. The phenomena of Value may be erected into a great Inductive Science based upon fundamental General Conceptions and governed by General Laws, precisely in the same manner as the phenomena of any of the other great Inductive Sciences, such as those of Force and Light, by simply following analogous methods to those by which the Laws of Mechanics and Optics have been demonstrated.

We have shewn by abundant extracts in the beginning of this work that Bacon was the first to proclaim emphatically the great doctrine of the essential continuity of science: and among many others Herschel says "that natural philosophy is essentially united in all its departments, through all which one spirit reigns, and one method of inquiry applies." Many Economists have acknowledged the same doctrine, and especially Mill, who in one place says that Economics is a physical science, and can only be brought to perfection by adopting the methods already adopted in physical science duly extended and generalised. Now, is the system of breaking up the phenomena of Economics into separate classes, and assigning a distinct Theory of Value for each case, in accordance with the method adopted in any physical science? There is no person whatever conversant with the most elementary principles of any Physical Science who would not at once say that this method, commenced by Ricardo and extended by Mill, is utterly repugnant to the fundamental principles of Natural Philosophy, and those who believe in such a system should at once restore the Mechanics of Aristotle, and the Astronomy of Ptolemy.

But we entirely repudiate and reject such a method of procedure. We have shewn that Economics is the Science of Value, or Commerce, in its widest extent; and that it may be erected into

a great general science, based upon fundamental general ideas, and governed by general laws precisely in the same way as Mechanics or Optics. It affords a splendid example of demonstrative Inductive reasoning, leading to results of as great *certainty*, though not the same *precision*, as any of the Physical Sciences. By adopting the same general principles of reasoning as are universally employed in every other Physical Science, and an exposition of the facts of Economics, we have annihilated those false distinctions set up by Ricardo and Mill, and reduced all the phenomena to a single General Equation, or Law. We shall have in a future chapter to examine the further application of this General Law, and shew its important consequences in the progress of society.

CHAPTER XII.

ON PROFITS.

1. In the preceding chapters we have shewn the entirely unphilosophical nature of the system of Smith, Ricardo, and Mill, and annihilated the distinctions made by the two latter writers in the Laws of Value affecting different classes of commodities; we have now to point out errors of the most important nature of part of their doctrines, arising out of an arithmetical misconception which is so plain that any schoolboy could perceive it, and it is amazing that they themselves should have failed to discern it.

PROFIT is the excess of the Value of any product above the Cost of Production, or the expense of placing the commodity in the place it is offered for sale: and is estimated by the ratio of that excess to the Capital employed. Thus, if the Capital employed be £100 and the Profit £10, that is a Profit of 10 per cent.

Profit is a general name for the excess gained, whether the matter traded with be money or merchandise of any description. But when the Capital advanced is Money or Credit, the excess is more usually called Interest or Discount: when the return is for merchandise it is usually termed Profit.

When we speak of the *Rate* of anything it invariably means the *time* in which it is done. If any one speaks of the *Rate* at which a horse can gallop, or a ship steam, or an athlete can walk, or run, he always mentions some *time* in which the distance is accomplished. If it were said that a horse could gallop at the *rate* of 20 miles,—or a ship steam at the rate of 15 knots—or an athlete walk at the *rate* of 6 miles, or run at the *rate* of 14 miles,—every one would at once perceive that such a form of expression was defective, and conveyed no precise meaning whatever. The *rate* of speed in such cases is usually referred to the hour.

So every one, in speaking of *Rate* of Interest or Discount, invariably refers it to some time, such as a year.

So evidently the RATE of PROFIT must mean the amount of Profit made in a certain time, such as a year.

Now, while every one in speaking of the Rate of Interest or Discount invariably refers it to some period of time, as the year, not a single Economist that we are aware of has perceived that the term Rate of Profit must be referred to the same standard; or that *time* is as necessary an element in the definition of Rate of Profit as in that of Rate of Interest. They simply define the Rate of Profit to be the ratio of the Profit to the Capital—without any reference to the time in which it is to be made!

No one would suppose that a profit of £10 made on advancing £100 in money is the same Rate of Interest whether it be made in a year, a month, a week, or a day.

But when Economists speak of Rate of Profit there is not one who has perceived that an actual Profit made in a year is a very different Rate of Profit from the same actual Profit made in a month, a week, or a day.

This fact is so extraordinary, and the consequences which flow from it are so important, and the rectification of this definition overthrows so much of the doctrine of Ricardo, and throws such a clear light on many problems of Profits and Interest which have hitherto been obscure, that we must examine at length the current doctrines on the subject.

Throughout his chapter on Profits Smith has not the faintest glimmer of the truth that Rate of Profit and Rate of Interest must both be referred to the same standard of Time. Without being very distinct, he says that in a large town capitalists[1] "frequently cannot get the number of workmen they want, and therefore bid against one another in order to get as many as they can, which raises the wages of labour, and lowers the profits of stock," evidently not perceiving that Wages and Rate of Profit may rise together, as we shall shew hereafter.—"In the remote parts of the country there is frequently not stock sufficient to employ all the people, who therefore bid against one another, in order to get employment, which lowers the wages of labour, and raises the profits of stock."[2]

Here he evidently does not perceive that wages may be lowered, and the actual Profit high, and yet the Rate of Profit low.—"In reality high profits tend much more to raise the price of work than high wages."

[1] *Wealth of Nations, B. I., ch. 9.* [2] *Ibid.*

Now, we shall shew hereafter that prices may be lowered, and yet *both* Wages and the Rate of Profit raised.

2. This doctrine, however, comes out much more clearly in subsequent writers.

Thus Ricardo affirms that if[1]—"Corn and manufactured goods sell at the same price, profits would be high or low in proportion as wages were high or low."

Now this may be true with respect to corn and agricultural produce, because that is produced only once a year; but it is wholly untrue with respect to merchandise in which the returns may be made an indefinite number of times in the year.

"Nothing can affect profits but a rise in wages."—"Profits depend on high or low wages."

"Thus we again arrive at the same conclusion which we have before attempted to establish:—that in *all* countries, and at *all* times, profits depend on the quantity of labour requisite to provide necessaries for the labourers, or that land, or with that capital which yields no rent."

We can imagine that this doctrine would greatly perplex London traders.

"It has been my endeavour to shew throughout this work, that the rate of profits can never be increased but by a fall in wages, and that there can be no permanent fall of wages but in consequence of the necessaries on which wages are expended."[2]

"Profits, it cannot be too often repeated, depend on wages."[3]

Malthus says[4] that "Ricardo, in fact, has founded his whole theory of profits, which has been considered as the crowning achievement in the Science, upon the rise and fall in the value of wages."

We shall shew that this "crowning achievement" of the Science is founded upon an arithmetical blunder so gross that any schoolboy would be ashamed of it.

3. These doctrines are developed at greater length by McCulloch[5]—

"By *profit* in political economy is meant that part of the produce, or the value of the produce, obtained by the employment of capital in industrious undertakings, which remains to its em-

[1] *Principles of Political Economy, ch.* 6. [2] *Ibid., ch.* 7. [3] *Ibid.*
[4] *Definitions of Political Economy, p.* 27.
[5] *Note* 7 *to Wealth of Nations.*

ployers, after replacing the capital, or such portion of it as may have been wasted in the undertakings, and every other expense necessarily incurred in carrying them on.

"The rate of profit is the proportion which the amount of profit derived from an undertaking bears to the capital employed in it. . . ."

After describing the case of agricultural capital and profits, in which we have already said the doctrine may be true, because these are always referred to the standand of the year, he goes on:—

"Now in this case—and this case is, *mutatis mutandis*, the case of every man engaged in business—it is obvious that the *rate of profit* may be raised in three, but only in three, ways—

1. By industry becoming more productive.
2. By a reduction in the rate of wages.
3. By a reduction in the amount of taxation.

And it may be reduced by the opposite circumstances—

1. By industry becoming less productive.
2. By a rise in the rate of wages.
3. By a rise in the amount of taxation.

Profits *cannot* be affected in any way not referable to one or other of these heads."—We shall see.

4. Malthus, who was a good mathematician, and from whom better things might have been expected, commits exactly the same error. He says[1]—

"PROFITS OF STOCK. When stock is employed as capital in the production and distribution of wealth, its profits consist of the difference between the value of the capital advanced and the value of the commodity when sold or used.

"THE RATE OF PROFIT. The percentage proportion which the value of the profits upon any capital bears to the value of such capital."

Again[2]—"The profits of capital consist of the difference between the value of a commodity produced and the value of the advances necessary to produce it, and these advances consist of accumulations generally made up of wages, rent, taxes, interest, and profits.

[1] *Definitions of Political Economy, p.* 240.

[2] *Principles of Political Economy, ch.* 5.

"The rate of profits is the proportion which the difference between the value of the commodity produced and the value of the advances necessary to produce it bears to the value of the advances. When the value of the product is great compared with the value of the advances, the excess being considerable, the rate of profits will be high. When the value of the product exceeds but little the value of the advances, the difference being small, the rate of profits will be low.

"The varying rates of profit, therefore, obviously depend upon the causes which alter the proportion between the value of the advances necessary to production and the value of the product obtained."

5. Lastly Mill, who we might naturally have expected could not fail to perceive the gross and palpable blunder of preceding writers, follows in the same strain of error in the following ex-extracts[1]:—

"The profits of stock are the surplus which remains to the capitalist after replacing his capital and the ratio which the surplus bears to the capital itself, is the Rate of Profit. . . .

"The rate of profit is the proportion which the profit bears to the capital. . . . In short, if we compare the *price paid* for labour and tools with what that labour and those tools will produce, from this ratio we may calculate the rate of profit. . . .

"Profits, then (meaning not gross profits but the *rate of profit*), depend (not upon the price of labour, tools, and materials—but) upon the ratio between the price of labour, tools, and materials, and the produce of them. . . .

"The whole of the surplus, after replacing wages, is profits. From this it seems to follow that the ratio between the wages of labour and the produce of labour gives the *rate of profit*. And thus we arrive at Ricardo's principle that profits depend on wages; rising as wages fall, and falling as wages rise. . . .

"This theory we conceive to be the basis of the true theory of profits. . . . It is therefore strictly true that the rate of profits varies inversely as the cost of production of wages. Profits *cannot* rise unless the cost of production of wages falls exactly as much; nor fall unless it rises. . . .

[1] *Essays upon some unsettled questions in Political Economy. Essay IV.: on Profits and Interest.*

"The variations, therefore, in the rate of profits, and those in the cost of production of wages, go hand in hand and are inseparable. Mr. Ricardo's principle that profits cannot rise unless wages fall, is strictly true. . . .

"The only expression of the law of profits which seems to be correct is, that they depend upon the cost of production of wages. This must be received as the ultimate principle. . . .

"The rate of profits, therefore, tends to *fall* from the following causes:—

1. An increase of capital beyond population producing increased competition for labour.

2. An increase of population, occasioning a demand for an increased quantity of food, which must be produced at a greater cost.

The rate of profit tends to *rise* from the following causes:—

1. An increase of population beyond capital, producing increased competition for employment.

2. Improvements producing increased cheapness of necessaries, and other articles habitually consumed by the labourer."

And following up this train of error, he says[2]—"The capitalist, then, may be assumed to make all the advances, and receive all the produce. His profit consists of the excess of the produce above the advances; his *rate* of profit is the ratio which that excess bears to the amount advanced.

"It thus appears that the two elements on which, and which alone, the gains of the capitalists depend, are first the magnitude of the produce, in other words, the productive power of labour; and secondly the proportion of that produce obtained by the labourers themselves; the ratio which the remuneration of the labourers bears to the amount they produce. These two things form the data for determining the gross amount divided as profit among all the capitalist of the country; but the *rate of profit*, the percentage on the capital, &c. . . .

"We thus arrive at the conclusion of Ricardo and others, that the rate of profits depends on wages; rising as wages fall, and falling as wages rise. . . .

"The cost of labour, then, is, in the language of mathematics, a function of three variables: the efficiency of labour: the wages of labour (meaning thereby the real reward of the labourer); and

[2] *Principles of Political Economy, B. II., ch.* 15, § 6.

the greater or less cost at which the articles composing that real reward can be produced or procured. It is plain that the cost of labour to the capitalist must be influenced by each of these three circumstances, and by *no others*. These, therefore, are also the circumstances which determine the rate of profit; and it *cannot be in any way affected except through one or other of them*."

6. We have laid these long extracts before our readers because the method of estimating rate of profit shewn by them is so palpably erroneous that we might almost be supposed to be misrepresenting the doctrines of men of eminent reputation, unless we produced the most conclusive evidence of the fact. But there it is, and it cannot be gainsaid. Nor is it a mere casual slip which might be overlooked. It is of the greatest practical importance; for, if it were true, it would mean that Capital and Labour are always necessarily antagonistic to each other; and that the gain of one must necessarily be accompanied with loss to the other. It was precisely this melancholy doctrine of Ricardo's—along with a similar error regarding Rent, and the absurd doctrines of Malthus on Population, which are also founded on a most manifest arithmetical error—which seemed to shew that the state of society must necessarily deteriorate with the increase of numbers, that led a caustic philosopher of the present day to nickname Political Economy the "dismal Science."

But a very few sentences will dissipate these gloomy ideas; and we shall shew by the simplest arithmetical calculation that Profits and Wages may very well rise together.

Suppose the capital advanced is £100, and the Profit is £20.

Then if the Profit be made in a *year* the Rate of Profit is evidently 20 per cent. per *annum*.

If the Profit be made in a *month*, the Rate of Profit is evidently 240 per cent. per *annum*.

If the Profit be made in a *week*, the Rate of Profit is evidently 1,040 per cent. per *annum*.

If the Profit be made in a *day*, the Rate of Profit is evidently 7,300 per cent. per *annum*.

We presume that this is so clear that no one can dispute it. We shall now test the doctrines of Ricardo, McCulloch, Malthus, and Mill by these plain arithmetical rules. It will have been seen that

they repeatedly declare that the Rate of Profit can by no possibility be increased except by a diminution of Wages.

Now let us suppose that the Capital advanced, including Wages, be £100, and the actual Profit be £20: then if it be made in a year, it is Profit at the *Rate* of 20 per cent. per *annum;* if made in a month, it is Profit at the *Rate* of 240 per cent. per *annum;* if made in a week, it is Profit at the Rate of 1,040 per cent. per *annum;* and if made in a day, it is Profit at the *Rate* of 7,300 per cent. per *annum.*

Thus we see by the most simple arithmetical calculation, that supposing the Capital and actual Profits to remain exactly the same, the Rate of Profit may be enormously increased by the accelerated rapidity with which the Profits are made.

And similarly if the Capital and actual Profits remained the same, the Rate of Profit might be immensely diminished by a retardation of the periods in which they were made.

7. So also it is quite easy to shew that wages may be increased, and the actual profit diminished, and yet the *Rate* of Profit greatly increased.

Suppose, as before, the Capital is £100, and the Profits £20, made in a year.

Suppose that the period of making the Profit is reduced to a month, then the Rate of Profit is 240 per cent. per *annum.*

Suppose that in consequence of making the greater Rate of Profit, the capitalist advances wages £5. Then cost of production is £105, and the Profit is £15 made in one month: or nearly 14·3 per cent. per month: which is Profit at the Rate of more than 167 per cent. per *annum.*

Suppose a still more accelerated sale, and let the trader make the Profit in one day: then, as we have seen above, that is Profit at the Rate of 7,300 per cent. per *annum.*

Suppose that the trader, in consequence of this greatly increased Rate of Profit, raises wages, so that cost of production amounts to £110. Then, with an outlay of £110, he makes a Profit of £10 in one day; being more than 9 per cent. per day: or at the Rate of more than 3,318 per cent. per *annum.*

Hence, while price remains exactly the same, Wages may be considerably, and Rate of Profit be enormously, increased by the simple acceleration of the periods of return.

So also these cases may, of course, be reversed. The price may remain the same, the wages diminished, the actual Profits increased, and yet the Rate of Profit enormously diminished, by the simple retardation of the periods of sale.

So also the price may be reduced, and wages increased, and therefore the actual Profit reduced, both by an increase of wages and a reduction of price, and yet the Rate of Profit greatly increased.

Suppose that in the last case the trader, in consequence of competition, or for any other reason, reduces the price by £5, so that, as before, wages come to £110; then actual Profits are £5: this would still be Profits at the Rate of 4·545 per cent. per *day;* or more than 1,659 per cent. per *annum.*

Thus it is clearly proved that, by the simple acceleration of the rapidity of sale, Price may be reduced, Wages may be increased, actual Profit be reduced, and yet the Rate of Profit increased: that is, that the Customer, the Capitalist, and the Workman may all gain together; and of course *e converso* they may all lose together.

There may, therefore, be a solidarity of interests between Customer, Capitalist, and Workman; and not a necessary antagonism, according to the doctrine of Ricardo and his followers. Of course different results may happen in other cases; and in these the Ricardian doctrine may have an appearance of truth: but what we wanted to shew is that these writers have entirely omitted the most potent method of increasing the Rate of Profit; and thus the gloomy views of the progress of society are dissipated by the simple rectification of an arithmetical definition.

The current doctrine of Economists is, that Rate of Profit varies directly as the excess of the Profit above the Cost of Production, whereas the true doctrine is—

RATE OF PROFIT varies *directly* as the excess of the Profit above the Cost of Production, and *inversely* as the Time in which it is made.

8. Economists have adopted this manifest error from the usage of traders. When a banker charges his customer Interest or Discount on an advance, the rate per cent. and per annum is always agreed upon, and the customer pays a sum according to the

the time of the advance. But when a trader buys goods from a wholesale dealer, he simply adds on to the goods a percentage on the wholesale price, and makes no difference whether he sells the next day, the next week, or the next month: and he erroneously calls that advance his Rate of Profit. And to shew how an apparently very moderate actual Profit is a high Rate of Profit we may take two examples.

A retail bookseller is entitled by the custom of trade to a reduction of 25 per cent. off the published price of a work. Many retail booksellers offer to obtain any book for their customers at a discount of 20 per cent. off the published price. Suppose the book is ordered one day and paid for the next day. The customer is pleased at getting the book so cheap, and no one grudges the bookseller his apparently very modest profit of 5 per cent. Let us now see what his Rate of Profit is. By such an operation he gains a Profit of 5 per cent. on three-fourths of the price of the book, which is an actual Profit of 6·666 per cent. made in a *day;* which is at the Rate of more than 2,433 per cent. per annum. Traders complain when bankers charge 6 per cent. by the *year;* what would they say if a banker charged 6 per cent. per *day?*

Even if the bookseller made only 1 per cent. profit, that would still be at the Rate of 365 per cent. per annum. What would be said of a banker who made such a profit?

A costermonger buys baskets of strawberries in Covent Garden Market at 2¾d., and sells them the same afternoon at 3d. Every one would call that an extremely moderate profit. Yet it is a profit of one-eleventh part, or more than 9 per cent. per day, which is a Rate of Profit of more than 3,300 per cent. per annum.

Thus, when trading Profits are brought to the test of arithmetic, they present results which may startle some persons. Traders just place a certain advance of price on their goods, and they invariably call that advance the Rate of Profit, thus throwing great obscurity and misconception over the subject. But certainly professed writers on Economics should have perceived this fallacy, and rectified it.

9. Smith says[1]—"Apothecaries' profit is become a by-word denoting something uncommonly extravagant. This great appa-

[1] *Wealth of Nations, B. I., ch.* 10.

rent profit, however, is frequently no more than the reasonable wages of labour. The skill of an apothecary is a much nicer and more delicate matter than that of any artificer whatever; and the trust which is reposed in him is of much greater importance. He is the physician of the poor in all cases, and of the rich where the distress or danger is not very great. His reward, therefore, ought to be suitable to his skill and his trust, and it arises generally from the price at which he sells his drugs. But the whole drugs which the best employed apothecary in a large market town will sell in a year may not perhaps cost him above thirty or forty pounds. Though he should sell them, therefore, for three or four hundred, or perhaps at a thousand per cent. profit, this may be frequently no more than the reasonable wages of his labour, charged in the only way in which he can charge them, upon the price of his drugs. The greater part of the apparent profit is real wages, disguised in the garb of profit.

"In a small seaport town, a little grocer will make forty or fifty per cent. upon a stock of a single hundred pounds, while a considerable wholesale merchant in the same place will scarce make eight or ten per cent. upon a stock of ten thousand. The trade of the grocer may be necessary for the conveniency of the inhabitants, and the narrowness of the market may not admit the employment of a larger capital in the business. The man, however, must not only live by his trade, but live by it suitably to the qualifications which it requires. Besides possessing a little capital, he must be able to read, write, and account, and must be a tolerable judge too of, perhaps, fifty or sixty different sorts of goods, their prices, qualities, and the markets where they are to be had cheapest. He must have all the knowledge, in short, that is necessary for a great merchant, which nothing hinders him from becoming but the want of a sufficient capital. Thirty or forty pounds a year cannot be considered as too great a recompense for the labour of a person so accomplished. Deduct this from the seemingly great profits of his capital, and little more will remain, perhaps, than the ordinary profits of stock. The greater part of the apparent profit is, in this case, too, real wages."

What Smith says in the cases of the apothecary and the grocer is true to a certain extent, but not wholly so. The skill necessary to carry on a druggist's or a grocer's business is probably not more difficult to acquire than that required in many other trades. But

they deal in immensely smaller sums. The druggist probably sells for a shilling drugs which cost him a farthing. This apparently enormous profit is simply the necessary consequence of the exceedingly minute sums in which he deals. When a trader deals with large sums he can live upon a profit of 5 per cent. per day, or less. But when the sums he deals in are pence and half-pence, the profit must be enormous to enable him to live. Now, people do not require medicine by pounds' worths, but by ha'p'orths and pennyworths, and hence this enormous profit is absolutely necessary to enable the trade to exist.

10. Persons who engage in trade must live by their trade; they must, therefore, necessarily charge their customers such prices as will enable them in the long run to support themselves out of the profits. Hence, when transactions are very trifling in number and magnitude, they must charge very high prices in order to enable them to live. But when the transactions increase in magnitude and number, they are enabled to reduce the profits upon each, and lower their price. It is this circumstance that compels small shopkeepers in rural districts to charge such high prices for their goods, to the great indignation of many well-meaning but unreflecting persons. It is not uncommon to hear such persons exclaim against what they call the extortionate charges of country shopkeepers, quite forgetting that if the traders cannot make a living out of their business, they must give it up altogether, and the people be totally deprived of the convenience.

It has sometimes happened that gentlemen having plenty of other means to back them, have established rival shops for the express purpose of beating down the prices of the country shopkeepers. The consequence has been that the traders who had nothing but their business to support them have been ruined, the gentleman in process of time either got tired of his whim, or for other reasons abandoned it, and the germ of a nascent trade in a district destroyed, a pregnant example of the Spanish proverb,—"Hell is paved with good intentions."

11. There can be nothing more mischievous or injurious to a trade than for persons to interfere with it who are not regularly engaged in it. Mr. Laing mentions a very remarkable instance of this at Drontheim[1]—"I was surprised on inquiring at the only

[1] *Residence in Norway, p.* 79. *Travellers' Library.*

bookseller's shop, for a New Testament in the Norwegian tongue, to find that he kept none; I thought at first he had misunderstood me, but really found he did not keep any of late years. As he understood German, I asked him how in a population of 12,000 people, the only bookseller kept no stock of Testaments and Bibles; he said that country booksellers did not find it answer, as the Bible Society in London had once sent out a stock which were sold much lower than the trade could afford, and it was only after the Society's Bibles were sold that they could get clear of what they had on hand; hence, they could not venture to keep any now. It is plain if any benevolent society were to supply a parish with boots and shoes below prime cost, until all the shoemakers in the parish had turned to other employments, the parish would soon be barefooted, and that they would do more harm than good unless they had funds to continue the supply for ever. This bookseller, a very respectable man, laid no stress upon the circumstance, but simply explained it as he might have answered any other inquiry about books; and a bookbinder, whom I afterwards saw, gave me the same reason. Men of the first capacity are connected with our societies for the distribution of the Scriptures, and it may well deserve their consideration whether such distributions may not, in the long run, do more harm than good. If the ordinary mode of supplying human wants, by affording a fair remuneration to those who bring an article to where it is wanted, be invaded, they may be interfering with, and stopping up the natural channel, by which society must in the long run be supplied with religious books."

12. Hence, we see that when transactions are few and paltry, prices, and the profits upon each, must be high, and that a multiplication of transactions, and an increase of their amount, has a tendency to lower prices. Nowhere are rents so high as in the City of London; and nowhere are prices for ordinary goods so moderate. Goods in the City are in many cases twenty-five per cent. cheaper than in the suburbs, and this is not entirely the result of competition, which is equally active in the one as in the other, but is the result of the great number and magnitude of their transactions. The profits upon each transaction are much less than a country shopkeeper receives; but it is found that a small profit upon a large and rapid circulation of commodities

leads much faster to opulence than a large profit upon a slow and small circulation. Instead of the grasping rapacity which formerly used to make as great a profit as possible upon each transaction, modern experience demonstrates that the true axiom of trade is *small profits and quick returns.* Bacon saw clearly, what has been far too much overlooked by writers on Political Economy, that the frequency of returns is of far more consequence than the magnitude of each case of profit. "The proverb is true that light gains make heavy purses, for light gains come thick, whereas great come but now and then."[1]

13. It is unquestionably true, that a very rapid sale, accompanied by an unlimited supply, has the effect of lowering prices, even where the cost of production is increased. As a familiar instance, we may take the fares of cabs in London and the provinces. Cabs are sixpence a mile in London, but much higher in all provincial towns. Now, the cost of maintaining cabs, feeding horses, rent of stables, &c., is much higher in London than in the provinces. And, therefore, according to the notion that cost of production regulates value, the fares ought to be much higher. But the fact is, the demand for cabs is much greater in London than in the country. A London cabby gets many more fares than his provincial brother. Thus the returns are made so much more quickly, that a much greater amount of profit is made in the same time, and fares adjust themselves to that.

14. It is because no single trade is sufficient to occupy a man's time, or gain him a livelihood, that dealers in country districts, and in the commencement of trade, are obliged to unite so many different kinds of business. At a small watering place in England we saw the prospectus of a tradesman who united thirty-six kinds of trade. As population and wealth increase there are more demands in each of these different kinds of business, and the trader finds that he can gain a living by confining himself to a fewer number. At last every one confines himself to a single business, being able to make a livelihood out of it. Thus also in the rise of the arts, Michael Angelo was sculptor, painter, architect and engineer. Gradually these employments disintegrate. Not only in time each man confines himself to a single trade, but even

[1] *Essays: Of Ceremonies and Respects.*

to one small department of a trade. Each department of trade separates itself into a distinct employment. This is also the case in the sciences as soon as they attain a certain magnitude. Not only in modern times do men devote themselves to a single science, but in many cases a single branch of that science is sufficient to employ a lifetime. So also in the professions. Men become oculists, aurists, dentists. This is that principle of the separation of employments which has long been observed by Economists, and which Smith calls the "division of labour" with which he has commenced his work, but which comes more naturally, we think, in a subsequent stage of the inquiry, and which we have more fully considered in a future chapter.

15. It is often said that Profits tend to an equality. "It will be admitted," says Senior,[1] "that in the absence of disturbing causes, the Rate of Profit in all employments of Capital is equal." Even if it were admitted that there may be a tendency to equalise actual profits, the difference of the time in which profits are made completely destroys all equality in the Rate of Profit. If an active and pushing tradesman manages to effect sales with greater rapidity than his neighbours he increases his Rate of Profit enormously. In fact such a person often begins his business by *lowering* his prices, in order to increase the rapidity of the sale of his goods.

16. Moreover, this doctrine of the equality of Profits is deceptive in another sense. Smith says[2]—"The increase of stock, which raises wages, tends to lower [actual] Profit. When the stocks of many rich merchants are turned into the same trade, their mutual competition naturally tends to lower its profit, and when there is a like increase of stock in all the different trades carried on in the same society, the same competition must produce the same effect in them all. . . .

"It generally requires a greater stock to carry on any sort of trade in a great town than in a country village. The great stocks employed in every branch of trade, and the number of rich competitors, generally reduce the Rate of Profit in the former below what it is in the latter. But the wages of labour are generally higher in a great town than in a country village. In a thriving

[1] *Political Economy, p.* 188. [2] *Wealth of Nations, B. I., ch.* 9.

town the people who have great stocks to employ, frequently cannot get the number of workmen they want, and therefore bid against one another, in order to get as many as they can, which raises the wages of labour, and lowers the profits of stock. In the remote parts of the country there is frequently not stock sufficient to employ all the people, who therefore bid against one another in order to get employment, which lowers the wages of labour, and raises the profits of stock."

This account of Smith's is so perfectly true, and so obvious to any one who has practical knowledge of the subject, that it seems impossible that any one could contest it. Yet it has been vehemently denied by McCulloch, following Ricardo, and Mill. But as we have shewn that neither of these writers can even give a correct definition of the term Rate of Profit, it will be found that their criticisms are not worth very much.

We have seen above that Ricardo asserts that "Profits depend on the quantity of labour requisite to provide necessaries for the labourers, on that land or with that capital which yields no rent." McCulloch, who adopts everything in Ricardo without the slightest critical discernment, affirms that[1]—"profits are reduced in an advanced stage of society because the quantity of produce is *diminished*, and because the labourers get a larger share of this diminished quantity.

"The theory of Dr. Smith, as to the circumstances which determine the rate of profit, differs widely from the above. He seems to have had no idea of the fundamental principle of the decreasing productiveness of the capitals successively applied to the soil; and, not imagining that there was any natural cause why the produce obtained by the outlay of equal amounts of capital and labour should ever be diminished, he supposed that profits were lowered through the *competition* of capitalists; that when capital increased, the undertakers of different businesses became anxious to encroach on each other; and that in order to attain their object, they offered their produce at a lower price, and gave higher wages to their workmen.

"But though at first view this theory appears sufficiently plausible, it will not bear the least examination. *It is easy to see that competition cannot occasion a general fall of profits.* All that competition can do, and all that it ever does, is to reduce the

[1] *Note 7 to Wealth of Nations.*

profits obtained in different businesses and employments to the same common level, to prevent particular individuals realising greater or lesser profits than their neighbours. Farther than this competition cannot go. . . .

"Hence it appears, that that fall in the rate of profit that is invariably observed to take place as society advances, is not owing to an increase of capital, or to the competition consequent upon that increase, but to an inability to employ capital (1) from a decrease in the fertility of the soils to which recourse must be had, or (2) from a rise of wages, or (3) from an increase of taxation."

17. So Mill, who is an equal idolator of Ricardo, follows in the same strain[1]—"The tendency of profits to fall as society advances, which has been brought to notice in the preceding chapter, was early recognised by writers on industry and commerce; but the laws which govern profits not being then understood, the phenomenon was ascribed to a wrong cause. Adam Smith considered profits to be determined by what he called the competition of capital; and concluded that when capital increased this competition must likewise increase, and profits must fall." After quoting from Smith as above, Mill continues—"This passage would lead us to infer that in Adam Smith's opinion the manner in which the competition of capital lowers profits is by lowering price; that being usually the mode in which an increased investment of capital in any particular trade lowers the profits of that trade. But if this was his meaning, he overlooked the circumstance that the fall of price, which if confined to one commodity really does lower the profits of the producer, ceases to have that effect as soon as it extends to all commodities; because when all things have fallen, nothing has really fallen except nominally; and even computed in money the expenses of every producer have diminished as much as his returns. Unless, indeed, labour be the one commodity which has not fallen in money price, when all other things have: if so what has really taken place is a rise of wages; and it is that, and not a fall of prices, which has lowered the profits of capital. There is another thing which has escaped the notice of Adam Smith; that the supposed universal fall of prices through increased competition of capitals is a thing which cannot

[1] *Principles of Political Economy, B. IV., ch. 4.*

take place. Prices are not determined by the competition of the sellers only, but also by that of the buyers; by demand as well as supply. The demand which affects money prices consists of all the money in the hands of the community destined to be laid out in commodities; and as long as the proportion of this to the commodities is not diminished there is no fall of general prices. Now, howsoever capital may increase and give rise to an increased production of commodities, a full share of the capital will be drawn to the business of producing or importing money, *and the quantity of money will be augmented in an equal ratio* with the quantity of commodities. For if this were not the case, and if money, therefore, were as the theory supposes perpetually acquiring increased purchasing power, those who produced or imported it would obtain constantly increasing profits; and this could not happen without attracting labour and capital to that occupation from other employments. If a general fall of prices, and an increased value of money were really to occur, it could only be as a consequence of increased cost of production, and from the gradual exhaustion of the mines.

"It is not tenable, therefore, in theory, that the increase of capital produces, or tends to produce, a general decline of money prices. Neither is it true that any general decline of prices as capital increased has manifested itself in fact. The only things observed to fall in price with the progress of society are those in which there have been improvements in production greater than have taken place in the production of the precious metals, as, for example, all spun and woven fabrics. Other things, again, instead of falling, have risen in price, because their cost of production, compared with that of gold and silver, has increased. Among these are all kinds of food, comparison being made with a much earlier period of history. The doctrine, therefore, that competition of capital lowers profits by lowering prices is incorrect in fact as well as unsound in principle.

"But it is not certain that Adam Smith really held that doctrine; for his language on the subject is wavering and unsteady, denoting the absence of a definite and well-digested opinion. Occasionally he seems to think that the mode in which the competition of capital lowers profits is by raising wages. And when speaking of the rate of profit in new colonies he seems on the very verge of grasping the complete theory of the subject, 'as the

colony increases the profits of stock gradually diminish. When the most fertile and best situated lands have been all occupied less profit can be made by the cultivation of what is inferior both in soil and situation.' Had Adam Smith meditated longer on the subject, and systematised his views of it by harmonising with each other the various glimpses which he caught of it from different points, he would have perceived that this last is the true cause of the fall of profits usually consequent upon increase of capital." Mill also says Chalmers's ideas are "more decidedly infected with the often-refuted notion that the competition of capital lowers general prices."

18. On this subject Smith is undoubtedly in the right and his assailants in the wrong. Any one who has the slightest knowledge of commerce would laugh at the notion that the competition of capital does not produce a fall of prices and profits. Any trader in the City of London would say that the competition is so strong that every one is obliged to sell at the lowest price and the smallest profit.

The whole of this extraordinary doctrine is based upon Ricardo's fundamental fallacy that profits depend on the worst land in cultivation, or, as McCulloch says, profits are only reduced by diminishing production, *i. e.*, quantity of produce detained.

It is perfectly manifest that this is only the reappearance of the fundamental fallacy of Ricardo's Theory of Rent, which says that it is bringing inferior land into cultivation, and expending more labour on its production, which raises the price of corn, whereas, as Ricardo has himself elsewhere said, that it is precisely the reverse, as we have shewn, and that it is the increase of the price of corn which admits more value being employed in bringing inferior land into cultivation.

It is not *because* inferior land is brought into cultivation that profits are reduced: but manifestly precisely the reverse. It is only *when* general profits *have been* reduced that inferior lands are brought into cultivation; or because the price of corn has risen so much that it will afford usual profits to bring it into cultivation.

Suppose, for example, that usual profits were 20 per cent.: and suppose that there was land which might be reclaimed and yield a profit of 5 per cent. on the average price of corn at any time.

Then, if in consequence of the increased demand for corn the price rose so high that the inferior land would yield a profit of 20 per cent., then it would be cultivated.

Or suppose that the increased competition of capital reduces general average profits to 5 per cent., then the inferior land would be cultivated because it would yield usual profits.

No one would invest their money to produce 5 per cent. so long as they could invest it so as to produce 20 per cent.; hence so long as capital produces higher profits no one would resort to land which would only yield 5 per cent. So if the usual rate of interest on money were 10 per cent. per annum, no one would borrow money at 10 per cent. to cultivate lands which would only yield a profit of 5 per cent.

But in the natural progress of society population and the demand for corn would raise its price, and so increase the profit of cultivating inferior land: and at the same time the increase of capital would reduce the usual rate of profit: so the profits to be made by cultivating inferior lands would *increase*, and general average profits would *decrease*, until they became equal: and then inferior lands would be cultivated because they would yield usual profits.

Hence the diminution of the general Rate of Profit greatly increases the value of all lands; and a general rise of Profits and Interest would throw much land out of cultivation, or prevent a great quantity of land from being brought into cultivation; and greatly lower the value of all lands, as we shall shew more fully in the next section.

Thus in this case, as in many others, Ricardo and his followers, have simply inverted cause and effect. If profit and interest are very high, inferior lands are not cultivated because it would not pay to do so: when profits and interest are low, inferior lands are cultivated, because it pays to do so. And manifestly it is not the reclaiming inferior lands which give a diminishing production that reduces profit; but the reduction of average general profits which enables inferior lands, which only yield a diminished production, to be cultivated.

Even supposing that it were true that bringing inferior lands into cultivation gave a diminished produce and profit, it is perfectly manifest that persons who had capital to lend would not advance it at a lower rate of profit for the purpose of reclaiming

the land when they could get a higher rate from commerce. They would be actuated by no sentimental considerations in such matters. They will get the best profit they can. And the owners of the inferior land have no resource but to wait till the price of corn has risen high enough to make it profitable to improve them; or some means has been found of supplying cheap Capital.

19. It was precisely this circumstance that gave rise to the numerous schemes for founding banks and creating paper money which were so rife at the close of the 17th century. When men grew weary of burning and slaughtering each other for theological and political differences, they turned their energies to agriculture and commerce; and they rightly perceived that the very first requisite for the improvement of the land was cheap money, or capital. At that time the usual rate of interest for metallic money was 10 per cent. per annum. Of all species of industry the profits from agriculture are the most moderate: and if agriculture would only give perhaps a profit of 6 per cent., it would have been manifestly impossible to borrow money at 10 per cent., which the additional demand would probably have raised still higher. Hence the numerous projects for founding banks for the express purpose of multiplying paper currency and reducing the rate of interest to 3 per cent. This was also the origin of the schemes for creating Paper Money on the basis of the land; of which John Law's was the most celebrated, and which he had the opportunity of carrying out on a great scale in France, and ended in the catastrophe of the Mississippi scheme, as is described in a future chapter. All these schemes sprang out of a real necessity of the times; and, although they were founded on a false theory, we must carefully refrain from considering them as mere fraudulent bubbles, as is so commonly done. The great system of banking in Scotland, whose mechanism and effects we have described in a former chapter, carries out their intention as far as it can be done with safety.

It is also a matter of the commonest observation that a long continued very low rate of interest is a very usual precursor of an outburst of speculative mania. High profits in particular businesses attract quantities of capital into these businesses; and, of course, often lead to great overtrading and catastrophes. But when the Rate of Interest remains for a long time at 1 or 2 per cent., persons' incomes are reduced so much that they become

willing to adventure in enterprises to pay them a better profit. Hence, as is so often the case in Economics, the same effects are produced by opposite causes. Very high profits and very low profits are each the cause of a speculative mania. The most healthy condition is a medium rate of 4 or 5 per cent. When the rate is below that, every time it is lowered multitudes of new enterprises start into existence. At every raising of the rate, multitudes of new schemes are strangled in the birth. Now it is not these new enterprises which lower the Rate of Profit; but it is the low Rate of Profit which is the greatest stimulant of new enterprises.

20. It is now manifest that those who have assailed Smith's doctrine proceed upon the plain fallacy of inverting cause and effect. But Mill's assertions are also self-contradictory, as is so often the case.

Mill says truly that prices are determined, not by the competition of the sellers only, but also by that of the buyers, by demand as well as by supply, which is most true. He says truly that prices are affected by the money in the hands of the community to be laid out in commodities; and also that so long as the proportion of money to commodities remain the same, prices will not vary. Then he asserts that if commodities increase, the quantity of money imported, or produced, to buy commodities will increase in exactly an equal ratio, and therefore that no change in price *can* take place.

No doubt if this were true in fact, the consequence he states would follow. But notoriously it is not true in fact: and, as usual, he immediately proceeds to contradict himself. For he asserts that an increase of capital cannot produce a fall in prices, because if it did so money would be imported in an equal ratio to reap the profits to be made by buying these commodities very cheap; and then he says that this result only takes place in those commodities in which the improvements in production have taken place greater than in the production of the precious metals,—such as spun and woven fabrics.

Now, as every one knows and he himself admits what cannot be denied, that an immense diminution in the price of these commodities *has* taken place, owing to their enormously increased quantity produced, what becomes of his previous doctrine that

such a fall *cannot* occur, because money will always be imported to buy them in an *equal* ratio; and therefore their price *cannot* change.

Now it is an indisputable fact that an enormous mass of commodities have increased a great deal faster than money, and that their prices have immensely diminished in consequence of this increase: Mill, however, says that it is an often-refuted notion that the competition of capital lowers general prices.

But it unquestionably does so in all commodities which increase faster than money.

Now it is a mere accident that all commodities are not increased faster than money. All manufactured commodities are so: and if agricultural products have not hitherto been so, it is probably partly owing to the fact that they cannot be multiplied in such enormous quantities as manufactures, because, being far more bulky in proportion to their value, their cost of production, *i. e.*, the cost of placing them in the market when they are offered for sale—cannot be reduced in the same proportion: and partly because the same skill and science have never hitherto been applied to increase the products of the earth as has been done in manufactures.

There is not the smallest doubt that by the application of skill and science the products of the soil could be increased to several their present amount, and far beyond what is often supposed.

To give only one instance. Near Edinburgh there were some tracts of the sea-shore which were worth absolutely nothing. By the skilful application of the liquid sewage of the city these fields, which were originally nothing but pure sea sand, now yield *six* crops of hay in the year, and give a rent of £36 or £40 an acre. If this has been done at Edinburgh why could it not be done in numerous other places?

When Mill says that the competition of Capital does not lower Profits by lowering prices, he seems to forget that the commodities produced are themselves Capital, as well as the money originally employed in producing them. The money was Capital because it was used for the purpose of profit. When the commodities were produced they were also equally capital, because they were intended to be exchanged away for profit.

If, then, a certain expenditure of money-capital produces (by means of skill and machinery) an enormously increased quantity

of goods-capital, the immensely increased quantity of goods-capital can only be sold off by a very great reduction of price. Consequently the price and profits of each particular parcel are immensely reduced: but the profits upon the whole quantity are enormously increased; and, of course, Mill contradicts himself in the very same chapter—"What would really be not merely difficult, but impossible, would be to employ this Capital *without submitting to a rapid reduction of the Rate of Profit*"!!

21. It is this very truth that the immensely increased Value of the whole quantity produced much more than makes up for the diminished value of each particular parcel that furnishes a very simple solution of what J. B. Say declares to be one of the most thorny questions in Economics. He states the question thus:—"Wealth, being composed of the value of articles possessed, how can it be that a nation shall be just the more rich, as things are there at a lower price?"[1] The problem, as far as we understand it, is this, "If wealth depends upon the value of articles, how is it possible that a nation can be richer when cotton goods are 6d. a yard than when they were at 3s. 6d. a yard? The answer is very simple. Let us suppose that, at any given time, cotton goods were 3s. 6d. a yard, and there were only a certain number of people who could afford to buy them at that price, but there were a great many others who would buy them if the prices were reduced within their means. Now, the question is, to discover what reduction of price will enable any given increased production of cotton goods to be bought. What reduction of price, for instance, will cause the consumption to be doubled? Now, if by ingenious devices the manufacturers can diminish the cost of production of the cotton goods to one-fourth, but no increased quantity is produced, we have already shewn that no reduction in price will ensue. Hence, we may say, that the value of the cotton goods (*i. e.*, what people will give for them), is 3s. 6d., without reference to their cost of production. Now, if the change in price bore the direct proportion to the change in the relation between supply and demand, it would require the price to be reduced one-half before the consumption could be doubled. That is, though a greater number of individuals might receive the convenience of having cotton goods, still the total value of the whole quantity produced

[1] *Cours d'Economie Politique, Vol. I., p.* 371, *Edit. Guillaumin.*

would still be the same as it was before. But in practice this is not found to be the case. Instead of requiring a reduction of one-half in the price to ensure a consumption of double the quantity, it is probable that a reduction of a fifth, or a fourth, in the price would do so. If a reduction of 1s. were effected in the price, it would probably quadruple the consumption. Then the value of the total quantity consumed would be 10s. instead of 3s. 6d. Consequently the total wealth of the nation would be increased by that amount. And as the price was still further reduced, the consumption would proceed in a still more rapid ratio, in proportion to the greatly increased number of persons who would find the article within their means of purchase. A reduction of the price from 3s. 6d. to 6d., instead of increasing the quantity consumed sevenfold, would probably increase it a thousand-fold. That is, as the diminution in price proceeded in an arithmetical proportion the quantity consumed would increase in a geometrical proportion of a very high order. And the value of the totality of the article would proceed in a similar ratio. Thus, though the value of each individual yard was seven times greater in the former case, yet the value of the total quantity produced would probably be at least a hundred-fold in the latter, and the wealth of the nation is to be judged by the value of the totalities, and not by that of each yard. This is universally true. The value of the totality of the cotton manufactures of Great Britain is probably a hundred-fold now to what it was when the value of each piece was ten-fold what it is now. So of books. The value of the totality of book manufactures is now probably a hundred-fold what it was when each separate book, being in M.S., cost a hundred-fold as much. The only apparent paradox in the case lies in the ambiguous form of expression in which Say has stated the question, because in the first part of the sentence, "the value of the articles possessed," it manifestly means the totality of the articles possessed, in the latter part it refers to the price of each individual article.

22. Smith, therefore, is perfectly right in saying that the increase of Capital reduces prices and actual profits, and every person who has any knowledge of business will at once recognise the truth of this doctrine; and it will be further exemplified in the next section on Interest and Discount. The larger a man's

Capital is, the smaller is the profit he can live upon. If he has a million of money he may perhaps just manage to exist and bring up a family upon a profit of 4 per cent., or £40,000 a year; but if he has only a capital of £100, it is not possible for him to exist and bring up a family upon £4 a year.

Hence, as Capital increases, and the sums dealt with in each transaction are larger, the smaller is the profit a trader can live on. The smaller the transaction is, the greater always is the profit charged. A grocer always charges much higher for tea bought by the ounce than when bought by the pound. Paper bought by the quire costs more than when bought by the ream: and the fact that when commodities are bought in large quantities a reduction in price is invariably made is too familiar to every one's experience to require being exemplified more in detail. If then this is so notorious, what becomes of the assertion of those who contradict Smith, and say that increase and competition of capital does not, and cannot, reduce prices and profits?

This shews that production on a large scale is always more economical and advantageous for the community generally, because not only is the cost of management much smaller in proportion, but the capitalist can be satisfied with a much smaller profit. Hence large enterprises of all sorts inevitably end by devouring small ones, whether in land, commerce, or manufactures: and the effects of this natural law produce great changes in society, as we shall shew in a future chapter.

In a new country wages are high because there is a great demand for labourers and not many of them: Profits are high because the number of transactions is comparatively speaking small, and the amount insignificant, and capital very scarce. When people and Capital increase operations multiply in number and increase in magnitude. So capitalists can subsist on smaller profits, and a lower actual Profit may produce a very much larger actual amount. The use of banks is to substitute cheap credit, and so anticipate the slow accumulation of metallic Capital.

23. These considerations shew the error of Smith's assertion that[1]—"No equal capital puts into motion a greater quantity of productive labour than that of the farmer. . . . No equal quantity of productive labour employed in manufactures can ever

[1] *Wealth of Nations, B. II., ch. 5.*

occasion so great a reproduction. In them nature does nothing—man does all; and the reproduction must always be in proportion to the strength of the agents that occasion it. The capital employed in agriculture, therefore, not only puts into motion a greater quantity of productive labour than an equal capital employed in manufactures, but in proportion, too, to the quantity of productive labour which it employs, it adds a much greater value to the annual produce of the land and labour of the country, to the real wealth and revenue of its inhabitants. Of all the ways in which a capital can be employed it is by far the most advantageous to the society. . . .

"It has been the principal cause of the rapid progress of our American Colonies towards wealth and greatness, that almost their whole capitals have hitherto been employed in agriculture. . .

"It is thus that the same capital will in any country put into motion a greater or smaller quantity of productive labour, and add a greater or smaller value to the annual produce of its land and labour according to the different proportions in which it is employed in agriculture, manufactures, and wholesale trade."

It is certainly extraordinary that Smith should have made such assertions which are most contrary to the plainest facts of history. Taking simply the increase of wealth, and omitting all moral and political considerations, is it the agricultural or the commercial States of the world which have attained the greatest amount of wealth? The single City of Venice carried on a war against the Empires of the East and the West at the same time. The small commercial Republic of Holland conquered its independence from the Spanish monarchy, the most powerful State of the age. The slightest appeal to experience shews the entire fallacy of Smith's assertion: and the explanation of it is very simple. Even if a considerable amount of profit can be made by agriculture, yet that profit is made only once in the year. In no way is so large an amount of capital attended with so moderate a remuneration, except in banking. A farmer upon all his outlay and capital receives perhaps a profit of 10 per cent. in the whole year. A tradesman puts an increase of 10, 20, or perhaps 50 per cent. on the wholesale price of his goods, and may make that profit in a day or a week. A manufacturer may perhaps put a smaller actual profit on his goods, but he sells in large masses, in a short time, so that he makes a very large Rate of Profit by the year. A trader in a

moderately sized shop will make as much profit in the year as a farmer upon 300 acres of land. A farmer very rarely indeed farms more than a thousand acres of land; but a trader may trade with hundreds of thousands of pounds.

Hence, so far as mere increase of wealth goes, manufactures and commerce are immensely more productive than agriculture. Was it agriculture that made Holland the richest State in Europe? Was it agriculture that made Tyre, Sidon, Genoa, Venice, the Hanse Towns, Nuremberg, Augsburg, and multitudes of other great cities? Of course, for political stability the union of the two is most desirable. A commercial State may grow wealthy without agriculture; but no agricultural State can become very wealthy without commerce and manufactures. The purely agricultural States are the poorest in the world; and the resources of a purely agricultural State are soon exhausted. Was it her agriculture or her commerce and manufactures which more contributed to enable England, a small island with a scanty population, to contend in arms against all Europe? Certainly, if Smith had lived through the great revolutionary war, he never would have asserted that agriculture is more productive of wealth than commerce and manufactures.

24. Senior originated an expression which gives a very inadequate and far too narrow a view of Profits: he says that Profits are the reward of abstinence. This arises from the imperfect conception of Economists who consider Capital only as the accumulation of past labour, and thus they make what is only true in some cases, a general proposition. Senior himself says that Economists are agreed that *whatever* gives a profit is rightly termed Capital. Now, profits are made not only by employing the accumulation of the past, but also, in the modern system of Credit, by sagaciously utilising the anticipation of the *future*. Smith says[1]—"In great towns, trade can be extended as stock increases, and the CREDIT of a frugal and thriving man increases much faster than his stock. His trade is extended in proportion to the amount of *both*, and the sum or amount of his profits is in proportion to the extent of his trade, and his annual accumulation in proportion to the amount of his profits." Hence, a trader may make profits in proportion to the extent of his "purchasing

[1] *Wealth of Nations, B. I., ch.* 10.

power"; and his purchasing power consists of all his money, of all debts due to him, as in the form of bank notes, bills of exchange, and of all his CREDIT. A trader, therefore, makes Profits by purchasing with his Credit as well as with money, and hence Credit is Capital by the very force of the definition.

Hence it is manifestly a very inadequate description of Profits to say they are only the reward of abstinence. Money and Credit equally give profits, and therefore are equally Capital. They are *inverse*, or *opposite* to each other, one being the Right to the products of the past, the other the Right to the profits of the future. If, therefore, one be called positive, the other may be called negative, but the general word Capital includes them both.

Furthermore, we have shewn that Production is held by all modern Economists—Smith, Say, Mill, Chevalier—to include transport or exchange.

With marvellous inconsistency Smith, after expressly saying that Capital may be employed productively in commerce, that is, in exchange or transport, says that money *produces* nothing, to which McCulloch justly replies, that money is productive by facilitating exchanges. Now, we have seen that Credit produces profits by facilitating exchanges exactly in the same way as money does; hence Credit is Productive Capital exactly in the same sense and in the same way that money is. What the ratio of Money to Credit in commerce is may perhaps be fairly gathered from the table we have already given, in which it appears that in the operations of a great commercial house in London only £30,000 out of one million received were in specie, and only £11,000 of one million paid—all the rest of this great movement was effected by Credit. And there is no reason to suppose that this is not the usual ratio of Credit to Money in commerce: and that the Profits obtained by the employment of Credit are not in the same ratio. Leaving out of consideration for the present the enormous amount of Credit employed to put Labour in motion, which we shall consider in the next chapter, we see how utterly futile is the dogma laid down by Mill as a fundamental proposition of Capital, that "Industry is limited by Capital." Unless Credit be admitted to be Capital this doctrine is completely erroneous; if Credit be admitted to be Capital then it may be nearer the truth.

25. The Physiocrates asserted that agricultural labour only is productive of wealth, because the earth alone produces more than sufficient to maintain the labourers.

This general proposition, however, is quite inaccurate, because we have seen that persons cannot live upon one product only, however necessary it may be. It is upon the VALUE of their products, *i. e.*, upon the things they can get in exchange for them, that they live. Now, it is wholly erroneous to say that under all circumstances agricultural labour is productive. In many cases the *Value* of the produce does not repay the cost of production, and therefore such labour is *unproductive*. Agricultural labour is *productive* only when the Demand for the produce is so great and the Supply so limited, that the Value of the produce exceeds its cost of production. Hence, whether agricultural labour is productive or not entirely depends upon the great general law of Demand and Supply.

Some writers, seeing the fallacy of the doctrine that agricultural is the only kind of productive labour, deny that the earth produces at all. They assert that labour only is productive. Thus, among others, Mill says[1]—"The only productive power is that of labour."—"The only productive power which anywhere exists, is the productive power of labour, implements, and materials."—"In the ultimate analysis, therefore, labour appears to be the only essential of production."

So again[2]—"The cause of profit is that labour produces more than is required for its support."—"The reason why Capital yields a profit is because food, clothing, materials, and tools last longer than the time which was required to produce them."—"We thus see that profit arises, not from the incident of the exchange, but from the productive power of labour."

Now, it is perfectly obvious that this doctrine is open to the same objection as that of the productive power of agricultural labour. No man can live upon a single product of labour, any more than upon a single product of the earth. The workman lives upon the VALUE of his labour, *i. e.*, upon the things he can get in exchange for it. If the product of his work will exchange for nothing, it is of no value, and his labour is unproductive. If the products of labour do not pay for their cost, that labour is

[1] *Essays on some unsettled questions in Political Economy.*

[2] *Principles of Political Economy, B. II., ch.* 15., § 5.

unproductive, just as agricultural labour is, which does not pay for its cost. A shoemaker may fill whole shops full of boots and shoes, but if no one will buy them they have no value, and the labour produces no profit. Now, Mill would make this labour productive and give a profit because the boots and shoes produced are more than is required for the maintenance of the labourer. But productive labour is, as we have before explained, labour which produces or *draws forth* a profit.

It may be that in a Socialist or Communist state of society where the members labour in common, and the products are distributed to each by public authority, an exchange is not necessary for Profit. But in an Economic state of society, in which private property prevails, and the principle of the division of labour has been much developed, so that producers limit their products to a single article, and everything else they want is obtained by exchange, it is utterly erroneous to say that Profit does not depend on the "incident of exchange." On the contrary, it entirely depends on the "incident of exchange." If a producer cannot exchange away his product for something else it has no Value, and produces no Profit. What would it profit a man if he had mountains of kelp, pyramids of granite stones, forests of timber, warehouses stuffed with calicos and silks, granaries choking with corn, tuns of wine, or shops full of books, if he could not exchange them away for something else?—and that something else is his profit.

Few persons understand what unproductive labour is so feelingly as authors. An author may devote any amount of time and labour in producing a work of the highest genius and merit. The printed books last much longer than the tools and implements used in producing them. Therefore, according to Mill, the labour is productive, and the capital employed in them yields a profit. But if an inappreciative world refuses to buy the treasures of wisdom laid before them, the labour is unproductive—as too many authors well know.

The Tuscan Father's Comedy Divine has long outlived the materials used in its production; but when he felt the shaft from the bow of exile, and found how bitter is the taste of another's bread, and how hard the way up and down another's staircase, his labour certainly produced no profit. And many of the producers of the world's highest literary treasures could tell the same sad

story. When our English Dante had spent years of labour in telling us how he imagined Paradise was Lost, the commercial Value of his labour was found to be £5—certainly not very productive. When Newton had discovered the Laws which govern the motions of the heavenly bodies, if tested by commercial principles the Value of his labour would probably have been—0. Pope, Scott, Byron, Macaulay, Thackeray, Dickens, no doubt acquired vast sums by their literary labours; but the reason was —not that they had bestowed more labour and genius on their works than their hapless predecessors, but because the times had changed, and there was an immense demand for their works, and therefore they were profitable.

Malthus says most truly[1] that it is necessary to estimate both the advances and the returns of the capitalist in VALUE and not in QUANTITY: a principle most manifestly true, but which has been lost sight of both by the Physiocrates in speaking of the productiveness of agricultural labour, and by Mill in speaking of the productiveness of labour in general, and by Malthus himself in speaking of the vineyard of Tokay.

Whether labour in agriculture, manufactures, and commerce is productive, *i. e.*, profitable, or not, depends upon exactly the same general principle, namely, whether the Demand for the product is so great, and its Supply so limited, that its Value exceeds its Cost of Production.

We see, therefore, that it is a great fundamental error to say that Profit does not arise from exchange. No doubt in some few cases an exchange is not necessary to profit—as when the product itself is wanted. But in all other cases, where persons require other things than what they obtain by their own labour, it is absurd to say that Profit does not arise out of the incident of exchange; on the contrary, it can arise only out of an exchange. Products which are not required, and cannot be exchanged, are not wealth, and have no Value: and it is only by means of an exchange that they become wealth. Hence we see demonstrated that great fundamental principle which we have so often inculcated, that it is *not the Labour of the Producer that constitutes a thing Wealth, but the Demand of the Consumer.* All Value proceeds exclusively from Demand; and all Profit arises from the Value of a product exceeding its Cost of Production.

[1] *Principles of Political Economy, p.* 263.

Hence, also, Labour may be productive, *i. e.*, profitable, which is not associated with any material, tools, and implements. A great actor or performer earns an income far beyond the sum necessary for his support, as well as to pay the interest on the capital expended in his training and education. His labour is therefore *productive*, because its Value exceeds its Cost of Production.

26. Mill says[1]—"In short, if we compare the *price paid* for labour and tools with what that labour and those tools will *produce*, from this ratio we may calculate the rate of profit."—"From this it seems to follow that the ratio between the *wages* of labour and the *produce* of that labour gives the rate of profit."

It is surprising that Mill, who found so much fault with speaking of the ratio between Demand and Supply—a desire and a quantity—should not perceive that it is absurd to speak of the ratio between the *cost* of the product and the product itself. Ratio is the relation of *like* quantities with respect to magnitude. How can there be a ratio between a sum of money and a quarter of corn? between a sum of money and a horse or a house? To speak of a ratio between money and a product is as absurd as to say—If a sack of potatoes cost 10s., what is the price of a dozen of champagne? Evidently we must compare a price with a price. And if the product cannot be sold, how can the labour be productive?

Hence, to make sense, these sentences should have been written —"If we compare the *price paid* for the labour and tools with the *price* which the product of these labours and tools will produce [*i.e.*, draw forth or exchange for]," and "the ratio between the wages, of labour, and the price which the produce of that labour earns gives the ratio of profit," it would have a portion of truth, although they omit the time as a necessary element of the definition of rate of profit. But if we rectify these sentences in this manner, as they must be, to be made intelligible, what becomes of Mill's doctrine that profit has nothing to do with the "incident of exchange"?

27. It is thus seen how erroneous the doctrine is that labour only is productive, *i. e.*, profitable. It has been shewn that agricultural, manufacturing, and commercial labour are productive

[1] *Essays, &c. Essay IV.: on Profits and Interest.*

under exactly the same circumstances, and for the same reason. But the products of the earth themselves have in many cases a Value, without any labour being bestowed on them, or far beyond any labour that has been bestowed upon them. We have seen this in the case of minerals, timber, trees, cattle, kelp-shores, &c.

When a Colonial Government leases out the natural pastures of a colony, that pasture produces them a revenue, and is therefore *productive* Capital to them. Are these natural pastures the product of labour? When a landlord lets out plots of ground on building leases, and so derives an annual Profit from the land itself, is that land the produce of labour? And so many other instances might be adduced to shew the complete absurdity of the doctrine that all Value proceeds from labour; and that all Profits are the "reward of abstinence."

Hence we see plainly that all these phenomena are reduced to the great General Equation of Economics we have obtained. Demand alone is the origin of all Value: and the value of any product at any time and at all times depends exclusively on the Intensity of the Demand and the Limitation of the Supply: that whether labour of any sort is productive or not depends purely on its Value exceeding its Cost of Production: and that the Rate of Profit varies *directly* as the excess of the Value of anything above its Cost of Production and *inversely* as the Time in which it is made.

Upon INTEREST *and* DISCOUNT.

28. Having considered the cases of Rent and Profits, we now come to the question of Interest. When a man employs his own capital in trade it is perfectly clear that he is entitled to retain for his own use all the profits resulting from such operations, whether those profits be twenty per cent., one hundred per cent., or a thousand per cent. If any one of superior powers of invention were to employ his capital in producing a machine, which should be of great public utility, he might realise immense profits and accumulate a splendid fortune, and no one in the ordinary possession of their senses would grudge such a man any amount that he might legitimately make, or would think it inherently wicked of him to gain as much as he could; on the contrary, he would probably be applauded, he would be called a benefactor to

his country, and his name would be handed down with honor to posterity.

It often happens, however, that persons endowed with such powers of mind and habits of industry as would tend to enrich themselves and benefit their country, are deficient in capital, or means of setting their industry in motion. On the other hand, it often happens that persons who possess capital, or the latent power of setting their energies in motion, are deficient in the active qualities which are necessary to give it effect, or they may not have the necessity or inclination to do so. Under these circumstances it is manifestly advantageous to all parties, and the community in general, that those who have skill and industry without capital, and those who have capital without skill or energy, should meet together and combine their respective latent qualities. Such a combination would produce a beneficial result, and it seems clear that each party should have the profits of the combined enterprise in some previously agreed proportion. Such operations are extremely common, and there are two methods usually adopted as to the sharing of the profits. The person who advances the capital may either agree to receive a certain definite proportion of the profits realised, or he may stipulate to receive a certain definite sum in proportion to the capital advanced. In the former case he agrees to share the risk of there being no profit at all, or he becomes a *partner*. In the latter case he restricts his share to a certain amount previously defined, however large the profits may be, but he endeavours to shield himself from any loss which may arise; and in this case the sum he receives as a reward or hire for the use of his capital is called. INTEREST.

29. The price to be paid for the service rendered by the capitalist does seem to be entirely a subject for private arrangement between the parties, just as much as the price paid for any other service; nor does there appear to the eye of common sense anything in the nature of things inherently wicked in any particular division of the profits they may agree upon between themselves. The service rendered by lending money in such cases may vary in intensity according to circumstances, just as any other service may vary. Nobody thinks it wicked for a man to make 1,000 per cent. of his own capital if he can do so; nay, those who do so are frequently looked upon as the greatest benefactors to mankind.

But if one person borrow capital from another, and give him a price for the service rendered, or a share of the profits in proportion to the capital advanced, it appears to some people to alter the whole nature of the transaction. While a return of 30 per cent. was quite an ordinary return in the way of trade for man's own capital, they thought it something essentially wicked for the person who advanced the capital whereby these profits were made to take more than 5 per cent. for the use of it. The above is a simple explanation of the nature of interest; and there certainly seems no imaginable reason why such a contract should not be left to the private arrangement of the parties themselves as other contracts usually are. Yet there is no subject upon which men seem so utterly to have taken leave of their senses as on that of interest and usury. Dante punishes usurers worse than those who denied the existence of the Deity, and puts a whole city famous for its monetary business into hell, as a companion to the cities of the plain.[1] Nor is it possible to say whether the nonsense talked by Dante, or the nonsense talked by Aristotle on the subject of usury, is the greater. And it is not a little humiliating to think, that within the last forty years it was a crime punishable by law to take more than 5 per cent. for the use of money in any case whatever, and that the usury laws were only partially relaxed then, and were not finally abolished till 1854. And in the most modern works on Banking published in France, it is still deemed necessary to retain a chapter on the lawfulness of interest.

30. The prejudice against the imaginary crime of usury is now so completely exterminated in this country that it would be a waste of time to trace its history. But as it still prevails in several countries, we may give a place to the opinion of the celebrated divine, John Calvin, who was, as far as we know, one of the first persons to see through its absurdity; and it will be seen how he anticipated Bentham's line of argument.[2]

On the question of the lawfulness of usury being submitted to him, he replied that it is not entirely condemned in any part of Scripture. The sense of the precept of Christ (Luke vi.) had been perverted. The law of Moses was political, and not to be

[1] *Inferno, Canto* 11. The assertion of the lawfulness of usury was one of the articles of heresy charged against the unfortunate Albigenses.

[2] *Epistolæ, Responsa, Geneva*, 1575, *p.* 355.

stretched beyond what men and equity would bear. There were, indeed, certain passages of Scripture in which the Holy Spirit inveighs against usury. As in Psalm iv., 12, he describes a wicked city, where usury was practised in public. But, in fact, the Hebrew word meant *fraud* in general, and could not be applied to usury. It is true that usury was mentioned by name, by the writer, but that was because fraud and cruelty so often accompanied it. Ezekiel, it is true, goes further (xxii., 12), and specifies usury as one of the crimes which had kindled the wrath of God against Israel; but he uses two words, one of which means usury, and is derived from the same root as signifies to *devour*, and the other means increase or addition.

He shews that the Jewish laws and polity were adapted to the Jews only, and that modern society in no way resembles the condition of the Jews, to whom usury was forbidden.

He treats the reasons of St. Ambrose and Chrysostom as of very slight weight, and then says:—

"Money does not beget money! What does the sea? What does a house, for the letting of which I receive a rent? Does money truly grow from the roof and walls? But the land also produces, and something is brought from the sea which afterwards produces (or draws forth; PRODUCTION[1]) money, and the convenience of a house may be bought or exchanged for a certain sum of money. If, therefore, more profit can be made by trading than from the produce of any farm, is he who has let some barren farm to an agriculturist to be allowed to receive rent and profit, and another man not to be allowed to receive profit from money? And if any one buys a farm with money, does not that money generate money every year? You would allow that the profit of the merchant comes from his diligence and industry. Who doubts that unemployed money is useless? Or that he who asks a loan from me does not intend to keep it idle when he has got it? Now, in truth, that profit does not arise from the money, but from the produce. These reasons, therefore, are somewhat subtle, and have some plausibility; but when they are fully weighed, they fail. I therefore conclude that we are not to judge of usury by any particular passage of Scripture, but only by the law of equity. This will be clearer by an example. Let us suppose some wealthy man with large possessions in farms and rents, but not much money,

[1] *Chap.* 4, § 33.

Suppose another man, not so rich, nor of such large possessions as the first, but yet having more ready money. The latter being about to buy a farm with his own money, is asked for a loan by the wealthier man. He who makes the loan may stipulate for a rent for his money, and that the farm shall be mortgaged to him until the principal is repaid; but until it is repaid, he will be content with the profit or usury. Why, then, shall the first contract without a mortgage, but only for the profit of the money, be condemned, when the much harsher one of the annual rent, with a mortgage of the farm is approved? And what else is it than to treat God like a child when we judge of things by mere words, and not from the nature of the thing itself? As if virtue and crimes could be perceived from the form of the words!"

No one can but admire the daring good sense of this argument in the mouth of a divine, in defence of what was then considered one of the worse crimes men could be guilty of, and be amazed that these arguments made scarcely any impression, even in Protestant England, for upwards of 200 years!

31. The progress of just legislation on this subject must always be remarkable as an instance of the extraordinary *vis inertiæ* of an established law in this country, where no great popular passion is brought to bear on it, even where no great interests are enlisted in defending it, and where abstract justice and good sense are not made a popular cry. In the year 1691, Locke published his "Considerations of the Consequences of Lowering the Interest of Money," in which the futility of the Usury Laws was perfectly demonstrated. Smith shewed less than his usual judgment in advocating their maintenance. But his doctrine called forth the letters of Bentham upon the "Defence of Usury," as splendid examples of unanswerable argument as any in existence. It is said that Smith had the candour to acknowledge that his opinions were mistaken; but they remained uncancelled in the *Wealth of Nations*. The most eminent writers had pointed out, not only their utter futility to effect their purpose, but their highly mischievous effect in aggravating the evil they were intended to prevent. The experience of several commercial crises had demonstrated, that in consequence of the law attempting to prevent people paying more than 5 per cent. for the use of money, they often had to pay 50, 60, or 70 per cent. by the

methods they were forced to adopt. They were investigated and condemned by a Parliamentary Committee. Yet it was only in the year 1833 that the first breach was made in them, by exempting bills which had not more than three months to run from their operation, and by temporary extensions and prolongations most other contracts were taken out of their operation; but it was only in 1854 that they were finally swept away from the Statute Book. Thus, from the period of their total demolition in argument till their total demolition in fact, a space of not less than 161 years elapsed. Such was the period it required even in this commercial country to abolish laws equal in absurdity to those of witchcraft.[1]

32. Before we proceed any further we must point out an extraordinary confusion into which Mill has fallen with reference to the common phrase Value of Money[2]—"It is unfortunate that in the very outset of the subject we have to clear from our path a formidable ambiguity of language. The Value of Money is to appearance an expression as precise, as free from possibility of misunderstanding, as any in science. The value of a thing is what it will exchange for: the value of money is what money will exchange for: the purchasing power of money. If prices are low, money will buy much of other things, and is of high value; if prices are high, it will buy little of other things, and is of low value. The value of money is inversely as general prices: falling as they rise, and rising as they fall.

"But unhappily the same phrase is also employed, in the current language of commerce, in a very different sense. Money, which is so commonly understood as the synonyme of wealth, is more especially the term in use to denote it when it is the subject of borrowing. When one person lends to another, as well as when he pays wages or rent to another, what he transfers is not the mere money, but a right to a certain value of the produce of the country, to be selected at pleasure; the lender having first bought the right by giving for it a portion of his capital. What he really lends is so much capital; the money is the mere instrument of transfer. But the capital usually passes from the lender

[1] The last trial for Witchcraft in Great Britain took place in 1736, the last case of Usury in our law books was in 1856.

[2] *Principles of Political Economy, B. III., ch.* 8, § 1.

to the receiver through the means either of money, or of an order to receive money, and at any rate it is in money that the capital is commuted and estimated. Hence borrowing capital is universally called borrowing money; the loan market is called the money market: those who have their capital disposable for investment or loan are called the monied class: and the equivalent given for the use of capital, or, in other words, interest, is not only called the interest of money, but, by a grosser perversion of terms, the value of money. This misapplication of language, assisted by some fallacious appearances which we shall notice and clear up hereafter, has created a general notion among persons in business that the Value of money, meaning the rate of interest, has an intimate connection with the Value of Money in its proper sense, the value or purchasing power of the circulating medium. We shall return to this subject before long: at present it is enough to say, that by Value I shall always mean Exchange Value, and by money the medium of exchange, not the capital which is passed from hand to hand through that medium."

33. The reader has only to refer to a previous chapter,[1] where we have shewn that in Roman Law, Rights are expressly declared to be Wealth and Merchandise, and what we have said under Price, Interest, and Discount,[2] to see that the sole confusion in the case has been created by Mill himself. Turgot long ago observed that the expression Value of Money has two senses[3]—"It appears from this explanation of the manner in which money is sold or is lent in return for annual interest, that there are two ways of valuing money in commerce.

"For buying and selling, a certain weight of money represents a certain quantity of value or of different kinds of merchandise; for example, an ounce of money is equivalent to a certain quantity of corn, or of a certain number of days' labour.

"In loans and in the commerce of money, a capital is the equivalent of a rent equal to a certain portion of the capital; and reciprocally, an annual rent represents a capital equal to the amount of this rent repeated a certain number of times, according as the interest is higher or lower.

"These two different modes of valuation have less relation, and depend less upon each other than we might think at first sight.

[1] *Chap. IV.*, § 9. [2] *Ibid.*, § 24.

[3] *Sur la formation et la distribution des richesses*, § 76.

"Money might be very abundant in ordinary commerce and have very little value in it, and exchange for a very small quantity of commodities, and the interest of money might be at the same time very high."

And in § 78, he says that in the value of money compared to commodities, it is the money considered as metal which is the object of valuation. In the valuation of the interest of money, it is the use of the money during a certain time which is the object of valuation.

The fact is that there are two ways in which the Value of money may be estimated. One is the actual quantity of merchandise or debts that it may purchase or be exchanged for; and the other is the Profit which may be made by its use in purchasing either merchandise or debts.

Now, in speaking of the Value of Money with respect to commodities, it is usual to speak of the quantity of commodities it will purchase; when speaking of the Value of Money with respect to debts it is usual to speak of the Profits.

Debt being a saleable commodity, it is necessary, as we have already observed, to fix upon a unit of debt for the purposes of commerce, as is done with respect to every other commodity which is bought and sold. The unit of debt commonly used is £100 payable one year after date. If a sum of money be paid down for such a debt, that money is the price of the debt; and, of course, the Value of Money with respect to debt varies exactly according to the quantity of debt it will purchase, just as it does in respect to any other merchandise.

There are two ways of buying and selling such debt in commerce. The Profit is agreed upon, and in one method the full sum is advanced, and in exchange for that there is received the Right to demand the sum together with the Profit at the end of the year. In this case the Profit is called INTEREST.

In the other the Profit agreed upon is retained by the lender at the time of the advance, and the difference is paid down, and the lender, in exchange for it, receives the Right to demand the full sum at the end of the year. In this method the Profit is called DISCOUNT.

Thus, if the unit of debt to be bought is £100 and the Profit £5—

In the case of Interest the lender pays down £100 and in

exchange for it receives the right to demand £105 at the end of the year.

In the case of Discount the lender pays down £95 and receives in exchange the Right to demand £100 at the end of the year.

Now, in commercial usage it is very common to call the Profit, the Value of Money; and if the Profit rose from 3 to 6 per cent., it would be said that the Value of money had doubled, because twice as much Profit would be made by its use. Now, when this is clearly explained, it is evident that there is no confusion at all in the matter. Traders distinctly understand what they mean by using this form of expression. An ambiguous term is where a word denotes different things in nature which are not understood by those who use it; such as the word LOAN denotes two operations of a distinct nature; and this difference is not observed by those who use it, and who consequently deduce very erroneous inferences from such use. But many words have two distinct meanings in the same science, and when these different senses are clearly understood by those who cultivate such sciences, such terms are not ambiguous, nor is there any confusion. Traders perfectly understand the two distinct senses in which the term Value of Money is used, and, consequently, among them there is no ambiguity and no confusion—though we often find great confusion among writers who do not understand commerce.

In different points of view, then, the term Value of Money is applied to the QUANTITY of merchandise of any sort purchasable with money; and to the PROFITS to be made by trading with money: and when this is clearly understood the formula we have given in a preceding chapter is strictly accurate—

The Value of Money varies *inversely* as PRICE, and *directly* as PROFITS.

34. Of the two methods of trading in money, Insurance and other Companies which make advances to landowners and others adopt the method of Interest: but Bankers invariably adopt the method of Discount.

Now, as by interest a profit of £5 is made on the advance of £100, and by Discount a profit of £5 is made on the advance of £95, it is evident that Discount is more profitable than Interest.

So long as the Profits are moderate the difference is not very material; but when the Profits become high the difference

increases in an enormous ratio, as a few simple examples will shew.

Suppose a money-lender discounts a bill at 20 per cent., he advances £80, and at the end of the year receives £100; and the Profit is clearly 25 per cent.

If he discounts a bill at 50 per cent., he advances £50, and at the end of the year receives £100; the Profit exactly equals the advance, or is 100 per cent.

Suppose a man lent £100 at 100 per cent. interest, he would receive £200 at the end of the year: if he discounted a bill at 100 per cent., he would advance *nothing*, and receive £100 at the end of the year; that is, the Profit would be *infinite!*

It would be out of place in this work to investigate the mathematical formulæ relating to Interest and Discount, but we may give a table shewing the difference in profit made by these modes of trading—

Table shewing the Profits per cent. and per annum at Interest and Discount.

Interest.	Discount.	Interest.	Discount.	Interest.	Discount.
1	1·010101	6	6·382968	20	25·
1½	1·522832	6½	6·951871	30	42·857142
2	2·040816	7	7·526881	40	66·666666
2½	2·564102	7½	8·108108	50	100·
3	3·092783	8	8·695652	60	150·
3½	3·626943	8½	9·311475	70	233.
4	4·166666	9	9·890109	80	400·
4½	4·701570	9½	10·496182	90	900·
5	5·263157	10	11·111111	100	Infinite.
5½	5·820105	15	18·823529	—	—

A consideration of this table will shew how Bankers' profits increase when discount becomes high; and also what discounting a bill at 50 and 60 per cent.—which we occasionally hear of in courts of law—means.

35. Supposing, however, the rate of interest to be free and unfettered, as it now is, it is very easy to see the considerations which would govern it. In the first place, as the interest is always a part of the profits realised, it is clear that the first element which will determine it will be the expected rate of profit. The next is the proportion between capital and the demand for it. If capital be very scarce, and those who want to borrow it numerous, they, of course, will naturally give a greater proportion of the profits to the capitalists. But if capital be abundant, and those who want to borrow it be fewer, the capitalists will have to be contented with a smaller proportion of the profits, and the rate of interest will fall. These considerations shew at once that interest conforms to the rule we have already established for prices, for the profits expected to be realised by means of the capital are the intensity of the service rendered; and the number of those who want to borrow compared to the quantity of capital to be lent, represents the power of the buyer over the seller. Hence, interest varies directly as the profits, and inversely as the proportion of the supply to the demand.

The preceding considerations shew that the Interest of money is precisely analogous to the Rent paid by a farmer to a landlord. They are each of them paid out of the profits realised, and they are the hire paid by the borrower for the use of trading capital, and they generally bear some proportion to the profits, but what proportion that will be, is modified by particular circumstances in each case.

These considerations contain the general principles which govern interest under ordinary circumstances, but, of course, in times of great commercial difficulty, both general and particular sums are paid for the use of money very much higher than the usual rates, which are also called interest; but these are exceptional cases, and are paid, not out of the legitimate profits of business, but for some great exigence, as for the use of sums for a short time to stave off ruin, or other penalties which may attach to a trader for failing to meet his engagements. The sums paid in such abnormal instances are not fairly to be called interest. It is evident that interest cannot continue for any time to exceed profits, any more than cost of production can continue to exceed value. If it does, the supply of commodities will be limited until the value exceeds the cost: so if interest exceeds profits production

will be limited until the profits are raised. Hence, the most powerful method of curbing over-production is to raise the rate of discount so as to annihilate profits.

36. We must also observe, that though rent and interest are analogous in their nature, so far as they are each the remuneration paid for the temporary use of a species of capital, yet they proceed in opposite directions in the progress of society, the reason of which is very obvious. In an early stage of society land is very abundant, and food is very abundant, consequently when every one can buy land for himself, he will not hire any, and even if he does, the rent must be very low, because the price of food out of which rent comes is very low. On the other hand, capital or money is very scarce, and there is a great demand for it as well as for labour, consequently wages and interest will be very high. But as population and wealth increase, the land becomes more scarce, and the demand for food increases, which raises the price of food. There is less land to be sold, and its price is much higher, consequently many persons who prefer that mode of life, and cannot afford to buy land, are obliged to hire it and pay rent for it, and as the price of food increases, rent increases too. On the other hand, each successive generation adds to the accumulation of capital; the number of persons who have disposable capital to lend increases, and this naturally diminishes interest, more especially as profits, out of which interest is paid, also naturally diminish from the effects of competition. The fact is, that these two species of capital, land and money, are subject to inverse conditions in the progress of society. The demand for land increases faster than the supply, the supply of money increases faster than the demand.

These are the causes which permanently govern the market rate of interest in different countries; but in the same country the market rates of different species of securities differ, and their rates vary from time to time according to circumstances; but yet they will all be found to be governed by one general rule.

In considering the question we have hitherto not admitted any idea of the danger of the security, but we have supposed the investment to be perfectly safe; and it is only the sum paid and received for the use of the money under a full sense of the security of the investment that should be strictly termed interest. But

almost all investments are subject to more or less risk, and the sum received under the denomination of interest must include two elements, one the actual hire for the money, and the other as a premium of insurance on the risk, and just as this risk is greater, so must the premium be higher. Interest will be found to be exactly analogous to rent or hire described in Chapter IV., § 32. It was there seen that the rent or hire of any article comprised two elements, one the profits of the capital invested in it, the other to replace the deterioration or wear and tear of the article itself. Now, bad debts and losses in trade may be considered as the deterioration or wear and tear of capital. And the sum paid for the use of money in a particular employment must, in a similar way, comprehend one element for the simple profits, and the other sufficient to cover the usual losses and risks of that mode of investment. If one business is more hazardous than another, it is quite clear that no capitalist will lend his capital to that employment unless he receives in the long run enough, not only to give the profits of capital, but also to cover the losses and replace the wear and tear, or deterioration, of capital. Hence, the rate of interest will always rise in proportion to the risk of the security, and hence there must always be in the same country, and at the same time, a different market rate of interest for every investment of a different degree of security, just as there is always a different rate of hire or rent for articles of different degrees of perishability. But these different rates will always rise and fall together.

37. We may look at the question in another light. Lending out money at interest may be regarded as the purchase of an annuity, to last for a longer or a shorter period, according to the agreement of the parties. Hence, in purchasing such an annuity, the price of it has to be considered just in the same way as the price of anything else. Now, it is quite evident that the value of the annuity must, in a great measure, depend upon its certainty of being paid, or upon its security; and if there be one species of security more certain than another, it is quite clear that the former is a service of greater intensity than the latter, and must be paid for accordingly. Thus, we may say, that a person who offers to take money at interest wants to sell an annuity to the lender of money, and just in proportion as the security he can offer

is good, so will he get a higher price for it; so that the interest of money paid by the borrower will be just in proportion to the risk run. Thus, money may be lent to merchants, to landowners, or to government. Now, merchants are always subject to unforeseen disasters, not only from their own speculations, which may turn out unfortunate, but they are usually so involved with others that they are always liable to suffer from the faults or misfortunes of others; consequently there is always some risk in lending them money. The owner of land is exempt from many of the risks a merchant is exposed to; he is not generally involved with others in his business, but his prosperity is based upon the land itself, and, as long as that is judiciously managed, it gives forth a sure increase, unless under the effects of some temporary dispensation of Providence. Consequently the security for the payment of an annuity based upon the increase of the earth is far greater than one which is liable to the casualties of commerce. A considerably higher price, therefore, will generally be given for an annuity whose security depends upon land than upon commerce, that is, a landowner can usually borrow on cheaper terms than a trader. The Government of this country, again, is considered to be more secure than either land or commerce; consequently, by the same rule, an annuity purchased from the Government should usually cost more than either of the two former ones. And this exactly corresponds with the fact; the interest obtained by investing money in the funds is usually lower than what is obtained either from mortgage on land or on mercantile security.

We may, therefore, consider that the price paid for the use of the money always includes these two elements, one of which is the fair earnings of the money itself, and the other is the insurance to cover the risk of the loan to the lender. Each of these varies at different times, according to the particular person to whom the money is lent, and the total effect will vary accordingly, and it is sometimes not easy to discriminate the effects due to each separate cause.

These, then, are the circumstances which determine the relative market rates of interest on different species of security in any country at the same time. If the rates of interest be observed at any particular time, the difference arises solely from the difference in the estimated safety of the species of security. And it will also be found, that if the rates in the same species of security

vary, it is because there is more danger than usual in the particular security offered by an individual. Thus, in the species of security offered by Governments, which are usually called funds, the price of an annuity of £3 a year from the English Government is seldom much under £100, while no one would give more than £30 or £35 for a similar one from the dishonest and bankrupt Government of Spain. That is, the English Government can borrow money at little more than three per cent., while the Spanish Government can scarcely do so at nine. The same may be said in a greater or less degree of every one of the European Governments, and the prices of annuities to be paid by them vary exactly in proportion to the supposed honesty or capacity of each to fulfil its agreements. It is universally true, that the value of the different kinds of annuities at the same time, and in the same market, will vary exactly in proportion to the estimated security of each. But this is by no means the case, if the observation be made at different times, because the value of money itself changes from time to time, like that of any other commodity, and accordingly the price paid for its use will vary according to that value, so that the interest received from the most secure species of investment at one time, may exceed that usually paid for the least secure species at another time, and this difference in value will be caused by an alteration in the relation of supply and demand, in accordance with the general principles that govern price. Thus, when commerce, is stagnant, or there is a superabundance of money that cannot find employment, the competition for lending it increases, and the power of the borrower increases over each lender. On the other hand, when commerce is active, there are more persons who wish to borrow, and, of course, the price will rise in proportion to the increase in the demand, and this will cause a rise in the market rate of all securities.

When this general change takes place in the market rate of interest, it by no means implies that the securities are more dangerous at one period than another, but only that money itself has risen in value, and the different species of securities will preserve the same relative differences as before.

A fall in the rate of interest is so far from proving the safety of the security that it will frequently be found to be worst, when interest has been much depressed below the usual rate. Because

when that happens all sorts of wild schemes and speculations are set afloat, partly on account of the undue facility of obtaining capital, and partly because when interest is so much depressed there are so many persons who live upon the interest of their money who become so distressed by the diminution of their incomes, they are tempted to embark in all sorts of hazardous schemes which promise a better profit. All the great commercial crises of late years have been preceded by a continued and unusual depression in the rate of interest. On the other hand, when it rises much higher than usual it puts a stop to a great deal of legitimate business in a manner that is very injurious to the country. It is clearly, then, most for the public advantage that the interest of money should neither be so low as to tempt persons to embark in dangerous speculations, nor so high as to impede real and useful industry.

38. The expression, Value of Money, being applied to the purchase of two distinct species of articles in commerce, namely, the ratio which a given quantity of money bears to a given quantity of commodities, and also to the price of debts, which is measured by the discount, has given rise to some considerations of a somewhat subtle nature, which we must endeavour to unravel. We have shewn that the rate of interest, or discount, depends upon the quantity of debts offered for sale, compared to the quantity of capital to buy them with, just in the same way as the exchangeable relations of money and commodities are found to be influenced. It might appear therefore at first, that a great increase in the quantity of the precious metals which leads to a diminution of the value of money with respect to one of these articles of commerce, should also necessarily lead to a diminution of the value of money with respect to the other. That is to say, for instance, if the value of money were so diminished with respect to commodities, that it required double the quantity of bullion to purchase any given commodities, that the rate of interest or discount ought to fall to one half. And conversely, that if there was such an increase of capital that the value of money diminished so much in purchasing debts, that the rate of interest, or discount, fell to one half, that therefore the quantity of bullion necessary to purchase commodities should be doubled. It would appear that such an idea that the value of money should diminish

to one half with respect to commodities and remain the same with respect to discount, was paradoxical, and self-contradictory.

Accordingly Adam Smith says[1] that several eminent writers have maintained that the increase of the quantity of gold and silver in consequence of the discovery of the South American mines was the real cause of the lowering of the rate of interest through the greater part of Europe. Those metals, they say, having become of less value (*i. e.*, of less purchasing power with respect to commodities) themselves, the use of any particular portion of them became of less value too, and consequently the price which should be paid for it. Adam Smith says—"The following very short and plain argument, however, may serve to explain more distinctly the fallacy which seems to have misled those gentlemen. Before the discovery of the Spanish West Indies, ten per cent. seems to have been the common rate of interest through the greater part of Europe. It has since that time in different countries sunk to six, five, four, and three per cent. Let us suppose that in every particular country, the value of silver has sunk precisely in the same proportion, and that in those countries, for example, where interest has been reduced from ten to five per cent. the same quantity of silver can now purchase just half the quantity of goods which it could have purchased before. This supposition will not, I believe, be found any where agreeable to the truth, but it is the most favorable to the opinion which we are going to examine, and even upon this supposition it is utterly impossible that the lowering of the value of silver could have the smallest tendency to lower the rate of interest. If a hundred pounds are in those countries now of no more value than fifty pounds were then, ten pounds must now be of no more value than five pounds were then. Whatever were the causes which lowered the value of the capital, the same must necessarily have lowered that of the interest, and exactly in the same proportion. The proportion between the value of the capital and that of the interest must have remained the same though the rate had never been altered. By altering the rate, on the contrary, the proportion between those two values is necessarily altered. If a hundred pounds are worth now no more than fifty were then, five pounds can be worth no more than two pounds ten shillings were then. By reducing the rate of interest, therefore, from ten to five per cent. we give for the use of a capital which is

[1] *Wealth of Nations, B. II., ch. 4.*

supposed to be equal to one half of its former value, an interest which is equal to one fourth only of the value of the former interest." The fact is simply this, that the interest comprehends two elements, one part of the profits paid for the use of the money, the other as insurance for the risk of loss. Now, no diminution in the value of money with respect to commodities can make the slightest difference in respect to these two elements. Whatever the quantity of goods be, more or less, that £100 will purchase, the part of the profits paid for the use of the money will still be the proportion of the £100. Nor can any alteration in the value of money have the slightest effect in influencing the risk of the transaction. Whether the usual price of goods be £100 or £50, it can make no difference in the proportion of the profits agreed to be paid for the use of £100, nor in the risk, consequently it can have no influence whatever on the rate of interest. The evident proof of this is, that in America, where, of course, money has diminished in value with respect to commodities just as in the rest of the world, 10 per cent. is quite a common rate of discount for the best mercantile paper. In California, where bullion was almost a drug, during the six years ending 1856, interest varied from 1½ to 2 and 3 per cent. per month, or from 18 to 24 and 36 per cent. per annum.

Hume also observes the same thing[1]—"Nothing is esteemed a more certain sign of the flourishing condition of any nation than the lowness of interest: and with reason, though I believe the cause is somewhat different from what is commonly apprehended. Lowness of interest is commonly ascribed to plenty of money. But money, however plenty, has no other effect, *if fixed*, than to raise the price of labour. Silver is more common than gold, and therefore you receive a greater quantity of it for the same commodities. But do you pay less interest for it? Interest in Batavia and Jamaica is at 10 *per cent.*, in Portugal at 6, though these places, as we may learn from the prices of everything, abound more in gold and silver than either London or Amsterdam.

"Were all the gold in England annihilated at once, and one and twenty shillings substituted in the place of every guinea, would money be more plentiful, or interest lower? No surely: we should only use silver instead of gold. Were gold rendered as common as silver, and silver as common as copper, would money

[1] *Essays. Part II. Essay 4: Of Interest.*

be more plentiful, or interest lower? We may assuredly give the same answer. Our shillings would then be yellow, and our halfpence white; and we should have no guineas. No other difference would ever be observed; no alteration on commerce, manufactures, navigation, or interest; unless we imagine that the colour of the metal is of any consequence.

"Now, what is so visible in these greater variations of scarcity or abundance in the precious metals must hold in all inferior changes. If the multiplying of gold and silver fifteen times makes no difference, much less can the doubling or tripling them. All augmentation has no other effect than to heighten the price of labour and commodities: and even this variation is little more than that of a name. In the progress towards these changes, the augmentation may have some influence by exciting industry, but after the prices are settled, suitably to the new abundance of gold and silver, it has no manner of influence.

"An effect always holds proportion with its cause. Prices have risen near four times since the discovery of the Indies: and it is probable gold and silver have multiplied much more. *But interest has not fallen much above half.* The rate of interest therefore (!) is not derived from the quantity of the precious metals.

"Money having chiefly a fictitious value, the greater or less plenty of it is of no consequence, if we consider a nation within itself: and the quantity of specie, when once fixed, though ever so large, has no other effect than to oblige every one to tell out a greater number of those shining bits of metal for clothes, furniture, or equipage, without increasing any one convenience of life. If a man borrow money to build a house, he then carries home a greater load: because the stone, timber, lead, glass, &c., with the labour of the masons and carpenters, are represented by a greater quantity of gold and silver. But as these metals are considered chiefly as representations, there can no alteration arise from their bulk or quantity, their weight or colour, either upon their real value or their interest. The same interest, in all cases, bears the same proportion of the sum. And if you lent me so much labour and so many commodities, by receiving five *per cent.* you always receive proportional labour and commodities, however represented, whether by yellow or white coin, whether by a pound or an ounce. It is in vain, therefore, to look for the cause of the fall or rise of

interest in the greater or less quantity of gold and silver which is fixed in any nation.

"High interest arises from *three* circumstances: a great demand for borrowing, little riches to supply that demand, and great profits arising from commerce: and the circumstances are a clear proof of the small advance of commerce and industry, not of the scarcity of gold and silver. Low interest, on the other hand, proceeds from the *three* opposite circumstances: a small demand for borrowing; great riches to supply that demand; and small profits arising from commerce: and these circumstances are all connected together, and proceed from the increase of industry and commerce, not of gold and silver."

We see in the above extract that Hume is not consistent with himself. He first asserts that an increase of the quantity of money can have no effect on the rate of interest, and he then admits that the rate of interest had fallen one half since the discoveries in America: and afterwards he expressly admits that the abundance of riches to supply the demand for borrowing lowers the rate of interest.

39. As, then, it is unquestionably certain that a diminution in the value of money, both with respect to debts and commodities, may be caused by an increase of capital or money, it becomes a very important and a rather subtle question, to determine under what circumstances either or both of these results is produced. And it is a question of peculiar interest at the present time, when the abundance of the Australian and Californian gold fields would lead many persons to expect a similar alteration of value as took place at the discovery of America.

We do not speak of Australia and California themselves, where gold was a positive drug for some time, but of the effects which may be anticipated in the old established countries of Europe. It is evident that as an increase in the quantity of money is capable of acting on its value, both with regard to debts and commodities, its first effects will be manifested in respect of that on which it first acts. Now, under the artificial system of the currency produced by modern banking, the supplies of gold invariably find their way into banks in the first instance. And the business of banking, as we have seen, consists in buying debts in a peculiar way. Now, the banks having an unusual quantity of money lodged with them,

are of course eager to employ it profitably, and in order to do this they lower the rate of discount, *i. e.*, they give a higher price for debts. Now, though a bill of exchange in its proper sense always represents a past operation, yet they are brought for sale to bankers chiefly for the sake of funds to employ in a future operation. Now, leaving out of the question any part of the rate of discount which may be due to the risk, a high rate of discount is a proof and a sign of the activity of enterprise. And whenever the high rate of discount arises from the activity of enterprise, it may be laid down as a certainty that there is abundance of enterprise ready to start into existence, and which is only curbed by the high rate of discount. As soon as the rate of discount is lowered, this enterprise is called into existence, and new operations of all kinds are commenced; and as the increase of operations just corresponds to the increase of capital, no diminution in the value of money, with respect to commodities, takes place, though it does with respect to debts. An example of the truth of what we say occurred in the year 1844, when from various circumstances an unusual quantity of capital was accumulated in the hands of bankers, and the rate of discount fell to two per cent., but no increase in the prices of goods generally took place; that is, there was a great diminution in the value of money with respect to debts, but no diminution in its value with respect to commodities.

40. But however enterprising the country may be, there is a limit to its enterprise, and as soon as that limit is reached, an increased quantity of money can lead to no fresh enterprise; the consequence of which is very manifest. The quantity of money being continually added generates no fresh enterprise, is forced into the previously existing channel of circulation, as it is called, and having no fresh work to do, it merely requires a greater quantity of money to do the same work that a less quantity did before. That is to say, a diminution in the value of money with respect to commodities takes place. One hundred pounds perhaps will now only do the same work that fifty did before, a permanent alteration takes place in the exchangeable relations of bullion and commodities, *and the rate of interest will spring back to its former level.* Because, as we have already observed, the interest is always a definite portion of the profits. And the ratio of £5 to £100 must always be the same, whatever quantity of goods that £100

will purchase, be it much or little. We therefore obtain this fundamental law of the effect of the increase of the quantity of money: *That as long as the increase of the quantity of capital affects the value of money with respect to debts, it has no effect on its value with respect to commodities: and as soon as it begins to affect its value with respect to commodities it ceases to affect its value with respect to debts.* We have illustrated the first part of this proposition by a reference to the case of England in 1844, as a proof of the truth of the latter part of it, we may take the cases of California and Australia, where the exchangeable relation of bullion and commodities were so very different from England, yet the rate of interest is very much higher.

41. Hume says[1]—"Nor is the case different with regard to the *second* circumstance which we propose to consider, namely, the great or little riches to supply the demand. This effect also depends on the habits and ways of living of the people, not on the quantity of gold and silver. In order to have in any State a great number of lenders, it is not sufficient nor requisite that there be great abundance of the precious metals. It is only requisite that the property or command of that quantity, which is in the State, whether great or small, should be collected in particular hands, so as to form considerable sums, or compose a great moneyed interest. This begets a number of lenders, and sinks the rate of usury; and this I shall venture to affirm, depends not on the quantity of specie, but on particular manners and customs, which make the specie gather into separate sums or masses of considerable value:"

In this extract Hume has touched the right point. It depends on the *manner* in which money is used whether it produces a fall in the rate of interest or not. He himself in this essay quotes Garcilasso de la Vaga as saying that interest in Spain fell nearly a half immediately after the discovery of the West Indies.

The fact is that both these phenomena—a raising of the price of commodities, and a raising of the price of debts, *i. e.*, a lowering of the Rate of Interest, are examples of the great General Law of Economics. An increased quantity of money may be used in two distinct ways—either in the purchase of commodities, or in the purchase of debts. If it is entirely used in the purchase of

[1] *Essay on Interest.*

commodities, and they are not increased in a similar ratio, the only effect can be a general rise of prices; and no change can take place in the rate of interest: but if the increased quantity of money be used in the purchase of debts, for a similar reason, the inevitable effect will be a raising of the price of debts, *i. e.*, a lowering of the rate of interest. But as commercial debts are usually created for the purpose of increasing the production of commodities, such a use of money does call an increased quantity of commodities into existence; and, consequently, no change in the value of money with respect to them need occur.

And, of course, if the increased quantity of money be used partly to purchase commodities, and partly to purchase debts, both effects will be produced: the price both of commodities and debts will be raised; neither however so much as if the increased quantity of money were used exclusively in either way. Therefore the prices of commodities will be raised *and* the rate of interest will be lowered. And this is exactly what did happen after the discovery of America. Hume and many other writers have observed that though the prices of all things rose greatly, they did not rise in proportion to the increased quantity of money. Smith and Hume also say that numerous writers observed that the rate of interest also fell very considerably. The reason of these two effects is perfectly plain. Part of the increased quantity of money was used to purchase commodities directly, and part was used to purchase debts; and consequently the price of both was raised; that is, the price of commodities rose and the rate of interest fell.

The truth of these remarks is shewn by the immense raising of the price of debts, *i. e.*, lowering the rate of discount, the immensely increased production of commodities of all kinds, and the slight change which has taken place in the value of agricultural products effected by the institution of Banks. We have in a previous chapter fully exhibited the mechanism of banking; and shewn how utterly erroneous is the common opinion as to the effect of banking.—that it is merely lending out money collected from the community: though even if it were confined to that, it would greatly reduce the rate of discount. But we have shewn that all banking in this country consists in the *creation* of Credit, several times exceeding the quantity of money deposited. This increased quantity of Credit produces all the effects of an increased

quantity of money in aiding in the production of commodities, as well as in lowering the rate of discount. And it is precisely because these creations of credit are mainly used to increase the quantity of commodities, that they have produced, comparatively speaking, so little effect on prices. It has been calculated that in the form of banking deposits alone in England Credit has been created to the amount of £800,000,000; and this produces exactly the same effects as so much money.

Thus we see how bankers can exist with such very low profits. Ordinary traders often make profits at the rate of several thousand per cent. per annum, and no one complains: and the reason is that they deal with their own capital and on comparatively small amounts.

But a banker's own capital is but a very small part of what he trades with. He opens a shop for the purpose of buying other people's capital, either with a simple promise to pay, which costs nothing, or sometimes with a promise to pay a moderate interest. Having collected this basis of bullion, he then offers to buy commercial debts: and he also buys these with a simple promise to pay—his own credit—which costs him nothing, but for which he charges exactly the same as if it were money. By this means he is enabled for all practical purposes to multiply the money in his keeping several times; and he is enabled to give a higher price for the debts he buys. And when many bankers carry on the same kind of business simultaneously, they, of course, bid against one another, and this raises the price of debts, *i. e.*, lowers the rate of discount, exactly as an equal quantity of money would do. This, then, shews how erroneous is the absolute doctrine that an increase of money cannot lower the rate of interest: and also when Mill says[1]—"The rate of interest, then, depends essentially and permanently, on the comparative amount of *real capital* offered and demanded in the way of loan"—such a doctrine is utterly unintelligible unless credit be admitted to be Capital; because all banking loans are new creations of credit, and it is this enormous creation of credit which has brought the rate of discount so low in this country.

42. To appreciate more fully the great reduction in the rate of interest which the modern system of banking has effected, we have

[1] *Principles of Political Economy, B. III., ch.* 23, § 4.

only to consider the usual rates which prevailed before the invention of the system, and which still prevail when transactions are in actual money.

At Athens, Solon, after his great measure of the Seisachtheia, with a sagacity which was 23 centuries in advance of the human race, abolished imprisonment for debt, and left interest absolutely free, and we find that it varied from 12 to 36 per cent. We may consider that 18 per cent. was about the medium rate, as in the only case in which it was fixed by law—in that of a husband who repudiated his wife, and refused to restore her dowry—it was fixed at that rate.[1] Isæus says[2] that Stratocles had lent out 40 minæ at interest at 9 oboli per mina per month, which is 18 per cent.: and Timarchus borrowed at the same rate.[3] Æschines Socraticus borrowed money at 36 per cent. from a banker to set up a perfumery shop, but finding it did not pay at that rate, obtained the sum from another person at 18 per cent.[4] The Clazomenians, owing their troops 20 talents, paid them 4 talents as interest, or 20 per cent.[5] At Corcyra, about 300 B.C., the State ordered some funds to be invested at the rate of 2 per cent. per month, or 24 per cent. per annum, on perfect security. Niebuhr says[6] that 18 per cent. is the usual rate of interest in the Levant at the present day.

At Rome interest does not at first appear to have been regulated by law, but the debts of the common people having given rise to much discord and sedition, chiefly in consequence of the extreme severity of the law of debt, interest was limited by the Code of the XII. tables to *unciarium fœnus*.[7] The meaning of this term has given rise to much difference of opinion among the learned, but Niebuhr and Walther agree that it means 10 per cent. per annum. All persons who took interest beyond this were obliged to restore it fourfold; a thief was obliged to return double what he had stolen.[8] In 408 legal interest was reduced to one half, and in 413 it was abolished altogether. And in 430, in consequence of a creditor having abused his rights, imprisonment for debt was abolished[9] except by the sentence of a court.

Afterwards, but at what time does not distinctly appear, *centesimæ usuræ* was established as the legal rate. Niebuhr supposes

[1] *Demosthenes, c. Neæram, p.* 1362. [2] *Supra Hagniæ hered., p* 293.
[3] *Æschines, c. Timarch, p.* 127. [4] *Lysias frag. in Athenæus, l.* 13.
[5] *Pseud-Aristot. Economics, II.*, 17. [6] *Hist. of Rome, Vol. III., p.* 64.
[7] *Tacit. Ann. VI.*, 16. [8] *Cato de Re rusticâ.* [9] *Livy, VIII.*, 28.

this was a foreign rate first adopted by Sylla.[1] *Centesimæ usuræ* was the same as *asses usuræ*, or one per cent. per month, or 12 per cent. per annum. And this continued to be the legal rate of interest up to Justinian, who reduced it one half. Verres is said to have lent the public money on his own account to the *publicani* in Sicily at *binæ centesimæ*, or 24 per cent.; and Cicero says that the wealthy Romans lent money at 48 per cent. in the Greek provinces. Smith sneers at the virtuous Brutus for lending money at 48 per cent. in Cyprus.

Fufidius exacted *quinas usuras*, or 60 per cent. from his reprobate clients,[2] and Juvenal[3] speaks of a man who offered triple usury, or 36 per cent., but could find no one to lend him at that rate.

43. The Mosaic interdict of usury was adopted and confirmed by the rulers of the Christian church. Money-lenders, never a very popular class anywhere, were laid under the Divine curse; the consequence of which was that in the sixth century the Jews had become the great money-lenders of Christendom. As the Jews had no hopes for the future, another sin, more or less, could not influence their destiny. While, therefore, usury was strictly forbidden to Christians, the Jews were not molested, and from that era we may date the strong bias of the children of Israel to this species of trading, which was further strengthened and aggravated by the subsequent treatment they received in every country in Europe. When it was further discovered that the prince of the pagan philosophers concurred with the Divine legislator in condemning interest on loans of money, it became a settled dogma, just as certain as the stability of the earth, that any Christian who lent out money at interest cut off from himself all hopes of final salvation. The irresistible temptation of profit, however, induced many Christians to prefer seizing a present gain, at the risk of a doubtful penalty. The active spirit of commerce demanded the use of capital, and the instinctive sense of mankind rejected the revolting absurdity that he who furnished the means, and risked the loss of his fortune, should not participate in the profits; and numerous subterfuges were devised, so that while the name of usury was avoided, the thing might be done.

Nowhere were the inconveniences and absurdity of the doctrine

[1] *Hist. of Rome, Vol. III., p.* 64. [2] *Hor. Sat., l.* 2, 16. [3] *Sat. IX.*, 7.

of the wicked nature of interest felt more strongly than at the fountain of infallibility, the Papal Court itself, and nowhere was greater ingenuity shewn to circumvent its own dogmas. A capital was collected for the purpose of lending money to the poor for a certain time on pledges, without interest. To forward these objects the Popes dispensed to those who contributed to them, indulgences with liberal prodigality. Burdensome vows were allowed to be commuted into donations to lending houses. A rich donation effaced the stain on the birth of wealthy libertines. But as these establishments required the services of a staff of officials, and as there could be no profits to pay them a salary, the Popes endeavoured to induce their servants to forego mundane comforts and necessaries in consideration of an unlimited supply of metatemporal blessings.

Such an organisation as this, however, could be of no long endurance. If it were a charitable thing to advance money for nothing to persons after they had become poor, it was far more prudent and sensible to lend them money at a moderate interest to help them to trade, and to prevent them becoming poor. Rich persons found that papal indulgences were but a poor return for hard cash: and as in the course of business the institutions incurred some loss, they were obliged to borrow money at interest to pay their expenses. The Popes, therefore, determined to allow the lending houses to receive interest for as much of their capital as was necessary to defray their expenses, When this breach was made, the next step was not long following. In order to attract a sufficient quantity of capital, those who advanced money were allowed to receive a moderate interest for its use, which was not entered in the balance sheet as "Interest"—that would have been damnable—but was concealed under the euphemism of "establishment charges." The Papal bull allowed it to be given *pro indemnitate.*

However cunningly and speciously this "artful dodge" was devised to do the thing they dared not name, the lynx-eyed divines soon saw through the trick, and a violent ferment immediately arose, and it was fiercely debated whether it was lawful to do evil—*i. e.*, take interest—in order that good might come. When this tempest was at its height it was quelled by a folly of equal magnitude with itself. The Pope issued a bull declaring these holy mountains of piety, *sacri monti di pietà*, to be legal, and

damning all who dared to doubt it. All scruples on the subject being silenced in so satisfactory a manner, other cities hastened to follow the example and establish lending houses, and they became common throughout Italy in the fifteenth century. Notwithstanding, however, the Papal sanction they had received, many writers and preachers considered them to be criminal, and the dispute was revived with considerable warmth in the sixteenth century, until it was at length set at rest by Leo X., who, in the tenth sitting of the Council of the Lateran, issued a special bull declaring lending houses to be legal and useful, and that all who dared to preach, dispute, or write against them should be excommunicated. He also justified them on the broad principle, which established the propriety of interest, that those who received the benefit should share the burden: *qui commodum sentit, onus quoque sentire debet.*

Notwithstanding the thunder of the Vatican, and the tempests that raged in the theological atmosphere regarding the sinful nature of interest, the practice spread from the Jews to the Christians, and in the thirteenth century had attained flourishing dimensions. The spiritual excommunications of the church and the temporal punishments of princes were equally ineffectual to prevent mankind from pursuing their natural instincts. Edward the Confessor had enacted that any one convicted of usury should be stripped of all his possessions, and be declared an outlaw, as he had heard the maxim at the French Court that usury is the root of every crime. Every country in Europe enacted similar punishments, and the frequency of the denunciations proves the extension of the practice. Nothwithstanding all these terrible penalties, the contest was vain, and several States were obliged to limit what they could not prevent. James I. of Arragon, in 1228, limited interest to 20 per cent.[1] In the same year at Verona it was limited to 12½; and at Modena in 1270 to 20.[1] An ordinance of Philip le Bel in 1311 allows 20 per cent. after the first year of the loan. In 1336 Florence borrowed money to carry on the war against Mastino della Scala, and paid 15 per cent. interest for it. Genoa paid from 7 to 10 per cent. on its public debts. The Florentines opened money lending houses in numerous places; their usual rate was 20 per cent., and not infrequently 30 and 40

[1] *Ducange: Art. Usurarii.*

[2] *Hallam. Middle Ages, ch. 9, pt. 2.*

per cent.[1] At the present day the usual charge of the second class bill brokers for discounting a tradesman's bill is a shilling in the pound for three months. This is 20 per cent. discount, which we have shewn is 25 per cent. interest.

Smith says[2] that in Bengal money is frequently lent to farmers at 40, 50, and 60 per cent., and the succeeding crop is mortgaged for the payment. And the most ordinary banking charges at the present day are not less than 12 per cent., and often far higher; this is owing to the very undeveloped state of banking in that country; and this shews what a stimulus it would give to the industry and wealth of India to organise a sound system of credit there.

44. From these examples, taken from so many nations and ages, it would appear that about 20 per cent. per annum is the fair average profit which must be paid for transactions in money which are perfectly safe. That the medium rate in this country has been brought down to 3 per cent. is due entirely to the great modern system of creating credit to perform the functions of money. In the reign of Charles II., 10 per cent. was the legal rate, and the first bankers gave 6 per cent. interest on their notes payable to bearer on demand. In the war with France William III. could with difficulty borrow at 30 and 40 per cent. in the city; but in a very short time after the foundation of the Bank of England, the State loans were contracted at 3 per cent.: and this has been about the medium rate ever since.

These rates, however, only held where considerable sums were borrowed, and in *le haut commerce*. When sums are advanced to costermongers and persons who carry on the trades of the streets the rates are enormously higher. We are told that these persons at Athens paid $1\frac{1}{2}$ obolus per drachma per day, *i. e.*, 25 per cent. per day, or 9,125 per annum. Boisguillebert says[3] that the small provision dealers of Paris throve on money borrowed at the rate of 5 sous per week the crown, or more than 400 per cent. per annum, because they sold perhaps five crowns' worth of merchandise on which they gained one half, or 50 per cent. (*i. e.*, 18,250 per cent. per annum), and if they perform this operation five or six times a week it is easy to live and pay such interest to those who lent them the money.

[1] *Depping. History of Commerce, Vol. I., p.* 235.
[2] *Wealth of Nations, B. I., ch.* 9. [3] *Le detail de la France, ch.* 20.

So Gerard Malynes says that the similar trade of London was carried on with money borrowed at the rate of 1d. per shilling per week, which is about 433 per cent. per annum. Turgot cites the case of the same class of people in his day who carried on their trade with money borrowed at 173 per cent. per annum, to shew the absurdity of the usury laws; and we have already cited the most remarkable instance of all[1] where a flourishing trade was carried on with money borrowed at 1,800 per cent. interest—all of which cases shew the futility of usury laws; and yet interest still continues limited to 6 per cent. in France, except only in the case of the Bank of France, which is allowed to raise its rate above that to prevent a drain of gold from the country.[2]

45. Now, the effect in former times was exactly the opposite to what it is now. When the treasures of the Indies were poured into Europe, there were scarcely any such things as banks at all, or credit. The consequence was that the increased quantity of bullion affected its value with respect to commodities, and had very little influence on its value with respect to debts. Nevertheless, it is certain that the increase of money did give a very great stimulus to industry even in that age; for the best authorities agree that its diminution in value, with respect to commodities, was only one half of what it might have been expected from the increase of its quantity.

The preceding considerations shew that two classes of persons are equally in fault, first, those who clamour for an unlimited increase of money, thinking that to be the panacea of all evils; and secondly, those who assert that an increase in the quantity of money can do no good, and will only lead to a diminution in the value of money. It depends entirely upon the circumstances under which an increase takes place, whether it is beneficial or the contrary.

One thing, however, is positively certain, that whenever money undergoes a diminution in value, either with respect to debts or commodities, in any country compared to its neighbours, it immediately causes an exportation of bullion from that country, and an importation of debts and commodities into it. That is, if the

[1] *Vol. I., p.* 218.

[2] In 1864 an Imperial Commission was issued to inquire into the operation of the Usury Laws in France, before which the Author was examined as a witness, but no change has yet been made in them.

prices of debts and commodities are very high in one country, neighbouring countries will immediately send their debts and commodities there for sale. And the people of that country will naturally send their money to foreign countries to buy debts and commodities where they may be had cheaper than at home. Hence, it is a positive certainty that whenever the rate of discount in two countries differs by a sufficient quantity to pay the expenses of transport, it will immediately cause a flow of bullion from where the discount is low, or the value of money low, to where the discount is high, or the value of money high. A principle of great importance, which has been, until lately, very imperfectly understood, and the neglect of which has brought on some of the most severe monetary difficulties of this country.

46. We have said that at any particular period, the difference in the rates of interest or discount for the same class of securities indicates a difference in the risk of the particular security. This does not, however, hold good with the rates of interest at different periods, because a high rate of interest may be caused by the activity of commerce, as well as by the risk of security. Thus, in America the discount on the best bills is habitually 8 or 10 per cent., and this arises from the activity of commerce. On the other hand, a very low rate of interest by no means always arises from the safety of the security, or the abundance of capital, but from the want of enterprise, the stagnation of commerce. Thus, in 1812, when the French Empire was verging upon destruction, J. B. Say says[1]—"France, from an opposite cause (*i. e.*, to the activity of enterprise), saw contrary effects produced. A long and destructive war, which closed nearly all communication with foreign countries; enormous taxes; injurious privileges, the operations of commerce undertaken by the Government itself, custom duties arbitrarily charged, confiscation, destruction of property, annoyances, and in general a rapacious system of administration, hostile towards the people, had made all commercial enterprise scanty, dangerous, and ruinous. Although the mass of capital, probably continually decreased, the useful employments to which it could be applied had become so scarce and dangerous, that interest never fell so low in France as at this period, and that which is usually the sign of great prosperity, became at this time the effect of a great distress."

[1] *Traité d'Economie Politique*, p. 390. *Edit. Guillaumin.*

This is just one of those cases which make many people think that Political Economy cannot be reduced to a science, and is enough to distract an ordinary reader—that the same visible effect or phenomenon is produced by a totally opposite and contrary cause. But the fact is, that it is all an example of our general law of supply and demand. Now, some causes act upon the supply, and some on the demand. But as supply and demand act in opposite directions, it is manifestly necessary that we must have opposite causes acting upon each of them, to produce the same phenomena. And the real difficulty of the case is to determine whether the change of the phenomena is due to a change in the supply or in the demand.

CHAPTER XIII.

ON LABOUR, OR IMMATERIAL WEALTH, AND WAGES.

1. We have now to consider the application of the General Equation of Economics to Labour, the second of the three species into which Economic Quantities are divided.

Labour is often divided into muscular and nervous; or an exertion of the body or the mind. In common parlance, indeed, it is more applied to an exertion of the body, and the term *labourers* or *working men*, is often considered to include only those who work with their hands, such as ploughmen, carpenters, masons, and other artisans. This, however, is a great error. "Labour" in Economics means an exertion of the mind, however manifested, either by the hand, the tongue, or in any other way. However simple work may apparently be, it must be directed by thought. All labour is in reality thought, accompanied more or less by muscular exertion; and the sedentary scientific student, the lawyer, the clergyman, the author, the professor, the painter, the cabinet minister, the banker, the merchant, are as truly *labourers* and *working men* as any ploughmen, carpenters, or masons.

Each of the great sciences—Geometry, Astronomy, Optics, Chemistry, Medicine, Law, Engineering—is as truly the product of labour as the Pyramids, a steamship, or a railway, and indeed there is no labour so exhausting to the tissues of the brain as mental abstraction on scientific or philosophical subjects. Nothing can be more unfortunate than making distinctions in kind where none exist in reality, and in marking off certain portions of the community as *working classes*, and supposing that they are governed by peculiar laws, different from those relating to other classes. Corin says truly[1]—

"Sir, I am a true labourer; I earn my bread."

All persons are *labourers* who earn their bread by personal exertions, or services, of any sort or description, from the Lord Chancellor to the lowest hodman.

[1] *As you like it, Act III., scene* 2.

Mr. J. H. Burton says truly[1]—"The hardest work in life is done with the head; for mental exertion admits of indefinite extension, while the sphere of mere muscular exertion is limited. It is for this reason, and this only, that the highest rewards are paid for mental labour. In a free country, all the money rendered for services, whether in the shape of counsel's fees, the superintendent's salary, or the hodman's wages, is the equivalent in value of the services rendered. There are many degrees in the scale of remuneration, and there is the same number of degrees in the value of the service. There are very wide differences in the remuneration between the extremes of the scale—between the head of the law, or the first London physician, with his fifteen thousand a year, and the hodman with his twenty pounds a year. The differences in their services, if we consider it capable of calculation, is probably not so great; it would be a strong assertion to say that the professional man works seven hundred and fifty times as much as the hodman."

2. The question of Labour shews the indispensable necessity of clear and distinct fundamental conceptions in Economics; and the great evil which has been done to the Science by the confused and contradictory doctrines on the word Wealth in Smith and Mill.

Aristotle laid down the broad general definition that Wealth is anything whose value can be measured in money. Now, as it is perfectly indisputable that the value of Labour of all kinds may be measured in money, Labour is Wealth by the very force of Aristotle's definition.

So the author of the *Eryxias*, adopting and illustrating this definition, shews that the essence of Wealth consists exclusively in exchangeability; and that if persons can gain a living by giving instruction of any sort, that is, by an exertion of their minds, or services, or labour of any sort, their Labour is Wealth to them just in the same way as gold and silver is.

Hence it was distinctly recognised in ancient times that Labour is a vendible, or exchangeable, commodity, and is expressly included under the title of Wealth.

3. In modern times the word Wealth was at first restricted exclusively to gold and silver, but it was afterwards enlarged so as

[1] *Political and Social Economy*, p. 32.

to include all useful *material* things the products of the earth: and was described as the produce of "land and labour." The Physiocrates constantly asserted that the earth is the sole source of wealth, because man can create nothing, and that *Nothing can come out of Nothing.* They held that Wealth consists of the material products of the earth which are brought into commerce and exchanged. Le Trosne originated an argument against Labour or Services being Wealth because they are only relative to the person, and are not transmissible, or inheritable, or transferable: they do not result in a product which can be transferred, and whose value can be determined by competition.

The answer to this argument, however, is clear and decisive. Labour is given in exchange for a price, and its value is determined by competition, like that of any other commodity. A single exchange is sufficient to determine value. A person gains an income in exchange for labour exactly in the same way as by selling material products, and is equally a subject of taxation. It is, besides, a complete error to say in many cases, that the products of pure Labour, or Thought, are not transferable, vendible, and transmissible. An enormous mass of valuable products consists of trade secrets, and these are transferable and inheritable, and form a very large mass of Capital, which may be bought and sold like any other material Capital. All the great sciences, the accumulations of pure labour, are transferable and saleable. We shall enter upon this, however, more at length hereafter.

4. Though the arguments of the Physiocrates are erroneous, they are at least consistent with themselves; but the doctrines of Smith and Mill are utterly confused and contradictory.

Smith gives no definition of Wealth, but from his constantly repeating the phrase "the annual produce of land and labour" it is generally supposed that that is his notion of Wealth. We have already pointed out that this expression is ambiguous, and that however it is interpreted, it cannot be accepted as a sound definition of Wealth.

Now every one knows that the land itself, on which no labour was ever bestowed, may be bought and sold, and therefore is wealth by itself; and may produce an income to its possessor, and therefore is Capital. So also Labour itself is a saleable commodity quite independent of any land, and consequently is wealth by itself.

The inconsistency of Smith's notions of Wealth is strikingly apparent in his account of Capital. Under fixed Capital he enumerates—"The acquired and useful abilities of all the inhabitants or members of the society. The acquisition of such talents, by the maintenance of the acquirer during his education, study, or apprenticeship, always costs a real expense, which is a Capital fixed and realised, as it were, in his person. These talents are and make a part of his fortune, so do they likewise that of the society to which he belongs. The improved dexterity of a workman may be considered in the same light as a machine or instrument of trade, which facilitates and abridges labour, and which, though it costs a certain expense, repays that expense with a profit."

And also—"A man educated at the expense of much labour and time to any of these employments which require extraordinary dexterity and skill may be compared to one of these expensive machines."

Hence we see that Smith expressly includes "natural and acquired abilities" under the title of Wealth and Capital. But these are not Wealth any more than anything else is, unless they are brought into the market and exchanged for something else; and their exercise, or exertion, in exchange for some remuneration is LABOUR.

And this Labour is, of course, a subject of Property, like anything else. Smith says—"The Property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable. The patrimony of a poor man lies in the strength and dexterity of his hands."

Hence we see that Smith expressly admits labour to be a saleable property by itself, quite independent of land or any material product, and therefore Wealth. What becomes then of the doctrine that Wealth is the "produce of land and labour," when each of them is admitted to be Wealth separately, and without any necessary association? What becomes of the doctrine that Nothing can come from Nothing, and that all Wealth comes from the earth?

5. J. B. Say also admits that "abilities" are Wealth. It is true that he frequently contradicts himself; but, as his work is comparatively little read in this country, we need not occupy our space

in pointing out these contradictions. It is sufficient for our purpose to shew that he includes "abilities" under Wealth.

He says[1]—"Since it has been proved that immaterial property, such as talents and acquired personal abilities form an integral part of the Wealth of Society."

"What I have said is sufficient, I think, to convince you that industrial faculties are faculties of the same nature as all others; and it is only in considering them equally with others that society can obtain all the advantages attached to the rights of property. For the same reason this kind of property, although it can scarcely be reckoned in figures [Why not?] makes nevertheless a portion of the general wealth of the nation. A nation in which industrial abilities are more numerous and more eminent than in others is a richer nation." And in many other places he maintains the same doctrine.

We have already quoted a long passage from Senior dwelling on the importance of this immaterial Wealth, which we need not repeat.

6. We have now to observe the confusion and self-contradiction of Mill, on the subject of Wealth. He begins by defining Wealth to be everything that has "purchasing power," or which is exchangeable, which is precisely the definition of Aristotle, the author of the Eryxias, and the Roman Jurists.

Now, as Labour has "purchasing power," it is Wealth by this definition.

But a little afterwards Mill completely changes the conception of Wealth, and speaks of the "production of Wealth" as being "the extraction of the instruments of human subsistence and enjoyment from the materials of the globe"; a conception quite different from the former definition, as the idea of exchangeability has entirely vanished from it, and human subsistence and enjoyment is substituted for it.

Afterwards, however, in discussing Productive Labour, he is obliged to return to the consideration of wealth: and he plunges into still further contradictions—"services which only exist while being performed cannot be spoken of as wealth except by an acknowledged metaphor. It is essential to the idea of wealth to be susceptible of accumulation."

Now here is a new condition introduced. Mill began with

[1] *Cours. Considérations Générales.*

exchangeability, as the sole essence of wealth; and now he introduces the necessity of accumulation!

He then says—"But in applying the term wealth to the industrial capacities of human beings, there seems always in popular apprehension to be a tacit reference to material products. . . .

"While, therefore, I should prefer, were I constructing a new technical language, to make the distinction turn upon the *permanence* rather than upon the *materiality* of the product."

Now here is new confusion added to the idea of Wealth; because many products of labour, such as trade secrets, the sciences, &c., are permanent without being material, and are not extracted from the materials of the globe. This doctrine of "permanence" is also a manifest violation of the *Law of Continuity*. Things are of all degrees of permanence from those which last for ever down to those which perish in the using; that is, from those which may be exchanged an infinite number of times to those which can be exchanged only once. Now, if permanence be the criterion of wealth, what degree of permanence is necessary to constitute a thing wealth? Mill gives no notion of this. But the *Law of Continuity* says—That which is true up to the Limit is true at the Limit. Hence, if permanence or capability of being exchanged, be the criterion of wealth, that is Wealth which has the lowest degree of permanence, and is capable of the least number of exchanges—that is one—and which perishes while being used—like Labour. Hence Mill's distinction is utterly unphilosophical, and must be rejected.

He then says—"I shall, therefore, in this treatise, when speaking of wealth, understand by it only what is called *material* wealth, and by productive labour, only those kinds of exertion which produce utilities embodied in *material* objects," and yet in the column side by side with this he says[1]—"The skill and the energy and perseverance of the artisans of a country are reckoned part of its wealth no less than their tools and machinery." And in a note to this passage he says—"The human being himself I do not class as wealth. He is the purpose for which wealth exists. But his acquired capacities, which exists only as means, and have been called into existence by labour, fall rightly as it seems to me within that designation."

[1] *P.* 30 *People's Edition.*

Now, the contradiction of these passages, which stand side by side, is flagrant. Mill first says that *anything* which has purchasing power is wealth. Then he says that only *material* things are wealth; then that the "production of wealth" is extraction from the "materials of the globe." Then he admits that "skill," "energy," and "abilities" are wealth. Now, are skill, energy, and acquired abilities *material* products, and are they extracted from the materials of the globe?

Hence we reject *in toto* all this confusion and contradiction. Abilities, skill, knowledge of all sorts, are wealth simply because their use and employment may be bought and sold, and that exercise is termed LABOUR.

Freed, therefore, and disembarrassed from all these contradictions, Labour is simply a commodity, which is the subject of sale or exchange, like any other commodity. There is the Demand for, and the Supply of, Labour, just as there is of anything else, as is admitted repeatedly by these writers. Ricardo, who has not given any definition of wealth, sees this[1]—"Labour which like all other things which are purchased and sold"—"The natural price of all *commodities*, excepting raw produce and labour"; thereby admitting that it is a commodity—*res*—which may be bought and sold.

So Lord Cardwell, on one occasion addressing his constituents, speaking of the working classes, said "their labour is their Capital," meaning, of course, the commodity they have to offer for sale to make a profit by.

The first thing, then, we establish is that LABOUR is itself a commodity; as Dr. Stirling says very truly[2]—"Trade regards labour itself simply as a subject of traffic and exchange, a thing to be bought and sold in the market, a commodity—one, indeed, of primary importance, compared with which all others dwindle into insignificance; but still a commodity which varies in quantity and fluctuates in price, and the value of which, consequently, is governed by the very same laws which regulate the value of those commodities which are the products of labour. A day's or a year's labour has its price just as an ounce of silver or a bushel of corn has its price. . . .

"Labour, it cannot be too often repeated, is nothing but a

[1] *Principles of Political Economy, ch.* 3.

[2] *Philosophy of Trade, B. II., ch.* 1.

subject of sale and merchandise, a *commodity*, liable to variations of quantity and consequent fluctuation of price."

Labour, therefore, being simply a commodity, there is a market for it like for any thing else. There is a labour market just as there is a corn market, or a meat market, or a poultry market, or a vegetable market, or a fish market.

7. It is extremely difficult to form any estimate of the quantity of money paid in exchange for Labour or services of all sorts. Professor Levi has made a calculation of the sums paid to those who, in common parlance, are erroneously termed the "working classes." He considers that in 1867 it amounted to about £418,000,000. But it takes no account of the sums paid for professional labour of all sorts, medical, legal, artistic, authorial, dramatic, clerical, and multitudes of other services too numerous to be specified individually, and consequently it gives but a very imperfect view of the whole question.

8. We are, however, unfortunately far from having disembarrassed the subject of all the confusion it has been thrown into by the unscientific language of Smith and Ricardo.

Labour being a generic name for the exertion of thought or abilities of any sort, there are, of course, as many different kinds of labour as there are different species of thought, and these are quite incommensurable with each other, and can by no possibility be compared with each other.

How can the labour of a ploughman, a carpenter, or a bricklayer be compared with the labour of a Newton, a Raphael, or a Shakespeare? How we can compare the "quantity of labour" in the *Principia* with the "quantity of labour" in the *San Sisto*, *Macbeth*, or the *Messiah*? How are we to compare the "quantity of labour" in the *Comedy* of Dante with the "quantity of labour" in one of Giotto's frescoes, or Ghiberti's doors of the Baptistery of Florence? And even in Labour of apparently the same nature there are innumerable varieties which are equally incommensurable with each other. In Poetry, in Painting, in Music, in Science, there are numberless varieties which are incommensurable. How are we to compare the "quantity of labour" in the *Paradise Lost* with that in *Othello*? The "quantity of labour" in *Tartuffe* with that in *Athalie*? How are we to compare the "quantity of

labour" in the *Transfiguration* with that in *Israel in Egypt*, or *Norma*? How are we to compare the "quantity of labour" in a Bethel conducting a great Law case with that in a surgical operation by a Paget or a Fergusson? And similar examples might be multiplied to infinity.

Hence, like many other words of a generic nature, such as wine, the word labour comprehends an immense variety of species which can in no way whatever be compared with one another.

Mr. J. H. Burton has made the same observation[1]—"It was an early doctrine of the Political Economists that labour is the measure of value. Abstractly this may be true; but practically labour is a thing too varied, and the distinctions between its different aspects are of too subtle a character, to admit of its being made an actual measure of value. Speaking of the labour that seems to be merely mechanical, shall we measure by the locksmith, the machine maker, and the chaser of the precious metals, or shall we measure by the ploughman, the handloom weaver, and the net maker? The former class make sums varying from 3s. to 15s. a day, and even more: the latter keep pretty close to the level of 1s. When we come to the field of intellectual labour, we find still wider differences; and soon see that it is impossible to establish labour as a practical measure. To speak of a thing being worth a day's labour generally, is, adopting the vulgar but discarded pecuniary measure of value, to speak of it as of some value between 1s. and 15s. Nor shall we be more successful if we take the produce of the labour. Who can compare the relative worth of the ploughing of a field, the weaving of a web, and the making of a watch, otherwise than by the sums they will respectively bring? Thus, practically, before it can itself serve as a measure, labour must be meted out by that other measure of value which is considered so uncertain—money."

9. Smith, from overlooking this very obvious consideration, has involved himself in immense confusion by making labour the measure of value, without the slightest indication of what kind of labour he means.

The Physiocrates made the earth the source of all Wealth, and greatly overlooked the importance of labour. Smith, as a reaction against this, begins his work by saying that the annual labour of

[1] *Political and Social Economy. p.* 22.

every nation is the *fund* which originally supplies it with all the necessaries and conveniences of life which it annually consumes! And, after describing the effects of the division of labour, he says that a man is rich or poor according to the quantity of that labour which he can command, or which he can afford to purchase. The value of any commodity, therefore, to the person who possesses and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities.

"The exchangeable value of everything must always be precisely equal to the extent of this power which it conveys to its owner."

Then, by a most extraordinary confusion of ideas, after defining Value to mean the quantity of labour which anything can *purchase* or *command*, Smith changes his idea of Value into the quantity of labour expended in *obtaining* a product. Thus confounding Cost with Value.

"Equal quantities of labour at all times and places may be said to be equal value to the labourer (!!) . . . .

"The price which he pays must always be the same whatever may be the quantity of goods which he may receive in return for it. . . .

"Labour alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. . . .

"Labour, therefore, it appears evidently is the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and places."

10. The absurdity of these doctrines is glaring and astounding. Smith says that equal quantities of labour are always of equal value to the labourer. That is to say, that whether a man receives £10 or £100 in exchange for his labour, it is of exactly the same value to him!!

But when Smith says that Labour is the only universal measure of value, we ask at once—What kind of labour? Is it the labour of the agriculturist, the carpenter, the poet, the mathematician, or

what else? Every distinct species of labour is a distinct commodity, just like every distinct species of wine, which has a value of its own determined by the general Equation of Economics. How can the value of the labour of carpenters be affected by the demand or supply of the labour of artists? or the value of the labour of ploughmen be affected by the demand or supply of Civil Engineers? Even if any one particular species of labour be selected, it is no more fitted to be a measure of value than any other commodity.

11. Labour, then, being alleged by Smith to be the measure of value, and the quantity of labour embodied in any commodity being asserted to be its value, by a gradual and natural perversion of ideas it came to be said that Labour is the CAUSE of all value. But to confound the *measure* of value with the *cause* of value is as absurd as to confound the *measure* of Force with the *cause* of Force; or to confound the *measure* of Heat with the *cause* of Heat; to suppose that the Thermometer is the *cause* of Heat, or that the Barometer is the *cause* of the weight of the air; or the Anemometer the *cause* of the force of the wind!

Money, corn, and many other commodities have been used as measures of Value; therefore, by a parity of reasoning, it might just as well be said that gold, corn, or these other measures of value, are the *cause* of all Value.

The confusion of ideas between Labour being the *measure* of Value, and Labour being the *cause* of all Value, is so palpable that it scarcely needs to be enforced by illustration; but yet it may be as well to give one. Suppose I wish to buy a tree or a cow, I might very well agree to give so many days' labour, or so much money the proceeds of so many days' labour, in exchange for the tree or the cow. The quantity of labour or money I am willing to give for the tree or the cow is the measure of my desire to possess them, but how is either of them the *cause* of the Value of the tree or the cow?

12. Ricardo has fallen into exactly the same confusion as Smith regarding Cost and Value. The very first day that Bentham read his work he wrote back to him that it was entirely founded on a confusion between Cost and Value. Whately says[1]—

[1] *Logic. Appendix. Ambiguous terms: Value.*

"Mr. Ricardo appears to set out by admitting Adam Smith's definition of Value in exchange. But in the greater part of his "Principles of Political Economy he uses the word as synonymous with *Cost:* and by this one ambiguity has rendered his great work a long enigma." He begins by defining the value of a thing to be the quantity of any other commodity it will exchange for, and then, in chapter 20, he says—"I cannot agree with M. Say in estimating the value of a commodity by the abundance of other commodities for which it will exchange." He estimates the value of all things by the labour employed in producing them, and says that labour is the foundation of all exchangeable value. He entirely denies that natural agents, such as the sun, the air, &c., can add exchangeable value to any product. He says—"They are serviceable to us by increasing the abundance of production, by making men richer, by adding to value in use; but as they perform their work gratuitously, as nothing is paid for the use of air, of heat, of water, the assistance which they afford us adds nothing to value in exchange!"

A multitude of writers have asserted that Labour is the *cause* of all Wealth.

Thus, McCulloch says[1]—"When it is said that an article or product is possessed of exchangeable value it is meant that there are individuals disposed to give some quantity of labour, or of some other article or product, obtainable only by means of labour, in exchange for it.

"In its natural state matter is very rarely possessed of any immediate or direct utility, and is *invariably destitute of value.* The labour required to appropriate matter, and to fit and prepare it for our use, is the only means by which it acquires value, and becomes Wealth."[2]

"Smith has shewn that Labour is the only source of wealth."[3]

"The labour which is thus employed is the only source of wealth. Nature spontaneously furnished the matter of which all commodities are made; but until labour has been applied to appropriate that matter, or adapt it to our use, it is wholly destitute of value, and is not, nor ever has been, considered as forming wealth."[4]

Quoting from Locke, he says[5]—"None of the spontaneous

[1] *Principles of Political Economy, p.* 2.

[2] *Ibid., p.* 148. [3] *Ibid., p.* 53. [4] *Ibid., p.* 61. [5] *Ibid., p.* 67.

products of nature has any value except what it derives from the labour required for its appropriation. The utility of such products makes them be demanded, but it does not give them value, which can be communicated only by the agency of voluntary labour of some sort or another. An object which it does not require any portion of labour to appropriate, or to adapt to our use, may be of the very highest utility; but as it is the free gift of nature, it is utterly impossible that it should possess the smallest value!"

"It is to labour, therefore, and to it only, that man owes everything possessed of value."[1]

So many other writers have followed in the same strain: thus Carey, the well known American Economist, says—"That labour is the sole cause of Value."—"Pearls may be found by those who do not seek them, and meteoric iron may be a gift to those who little anticipate its reception, while others may seek for pearls or dig for iron without profitable results. These are accidents which do not, in the slightest degree, militate against the assertion that *all* value is the result of labour! Nine hundred and ninety-nine out of every one thousand's parts of these annually created are so, and the exceptions are too slight to be deserving of consideration. They are just sufficiently numerous to prove the rule!!"

This paragraph alone is sufficient to prove Carey's want of scientific spirit. What person who had the slightest knowledge of Inductive science, but would smile to hear that exceptions prove the rule! a fact that is totally irreconcileable with a theory is the proof of the theory! This is truly something new in science. In the old world facts are the tests of theories, and though 999 instances may seem to suit a theory, it is universally held that the thousandth, which does not agree with it, *disproves* it. Now as a matter of fact by far the greater portion of things of value have no labour associated with them at all.

13. McCulloch adopts and enforces Ricardo's extraordinary doctrine that natural agents, the sun, the air, fertilising showers, have no effect on the exchangeable value of the products and fruits of the earth. He says[2]—"That commodities could not be produced without the co-operation of the powers of nature, is most certain; and we are very far indeed from seeking to depreciate the obligations we are under to our common mother, or

[1] *Principles of Political Economy, p.* 71. [2] *Ibid., B. I., ch.* 1.

from endeavouring to exalt the benefits man owes to his own exertions by concealing or underrating those which he enjoys by the bounty of nature. But it is the distinguishing characteristic of the services rendered by the latter that they are gratuitous. They are infinitely useful, and they are at the same time infinitely cheap. They are not like human services, sold for a price; they are merely appropriated. When a fish is caught or a tree is felled, do the nereids or wood nymphs make their appearance, and stipulate that the labour of nature in its production should be paid for before it be carried off and made use of by man? When the miner has dug his way down to the ore, does Plutus hinder its appropriation? Nature is not, as so many would have us suppose, frugal and grudging. Her rude products and her various capacities and powers are all offered freely to man. She neither demands nor receives a return for her favours. Her services are of inestimable utility; but, being granted freely and unconditionally, they are wholly destitute of value, and are consequently without the power of communicating that quality to anything."

Will it be believed that after having enforced in the preceding, as well as in many other passages too numerous to quote, the doctrine that Labour is the sole cause of all Wealth and of all Value, he afterwards says[1]—"DEMAND may, therefore, be considered as the ultimate source or origin of both exchangeable and real value; for the desire of individuals to possess themselves of articles or rather the *demand* for them originating in that desire is the sole cause of their being produced or appropriated."

Now in this latter passage, McCulloch is like the cow which, after having given a full pail of milk, kicks it over. The whole of his previous system which he has been enforcing with so much trouble is based on the doctrine that Labour is the source of all Wealth and the cause of all Value. But now he says that DEMAND is the true source of all Value! But this is exactly the doctrine which we have uniformly inculcated throughout—*That it is not Labour which is the cause of Value, but Value which is the inducement to Labour;* and that it is *not the Labour of the Producer which constitutes a thing Wealth, but the Demand of the Consumer.*

14. Nothing can be more extravagantly absurd than to say that the products of the earth owe their value exclusively to

[1] *Principles of Political Economy, p.* 315.

labour, and that natural agents, the sun, air, refreshing showers, add nothing to their exchangeable value. Is it human labour which makes corn grow, and fruit ripen? Is it human labour which makes cattle and timber trees grow! Wheat is grown in the North of Scotland at great cost and with great labour, and it is but seldom of the first quality. Wheat is grown in Essex not with more labour or cost, but is usually of far superior quality in consequence of the superior climate; and consequently it sells for a higher price in the market. How is the higher price of Essex wheat due to greater labour? Can any one in his senses fail to perceive that the superior climate greatly affects its value in the the market? If the sun, air, and showers in no way affect value, unripe fruit ought to be of the same value as ripe fruit. All products of the earth are confined to certain climates in which they attain perfection. But the labour and cost of growing them in climates in which they never attain maturity is quite equal to that of growing them in a suitable climate; and, consequently, the immature product ought to be of the same value as the mature product.

If the operations of nature cannot add to the value of the products of the earth, by a parity of reasoning, of course, neither can they take away from their value. Therefore, fruit which has become rotten, fish or meat which has become putrid, beer which has turned sour, timber which has decayed, ought to be of precisely the same value as fruit in its prime, fresh fish or meat, good beer, and sound timber. Tempests and storms of all sorts cannot take away from the value of the crops they destroy, because the labour remains exactly the same. In fact, the absurd consequences of this doctrine are so glaring that any one who reflects upon it for an instant can suggest to himself innumerable cases of its folly.

According to this doctrine of Ricardo and McCulloch, if a man sees a large nugget of gold or a large diamond lying on the ground they have no value; and it is only the labour of picking them up which gives them value! Is it necessary to waste words to refute such folly?

Strictly speaking, of course, neither Labour nor natural agents create Value. For Value resides only in the mind. Both Labour and the agency of nature are in vain, if there be no desire for the products. As there may be numberless products of Labour

wholly destitute of Value, so equally, there are numberless products of nature which have no Value. Labour and the agency of nature only affect Value when they make a product more desirable, so that the *Demand* for the product is greater in one condition than the other. So also ill-directed labour and the agency of nature may make a product less desirable, and so diminish Value, because the product will be less demanded.

What we wish to enforce is evident. Labour and the agency of nature stand exactly on the same footing with regard to Value. All that either of them can do is to change the condition of the product. If it is more desired in the new form it has greater Value, if it is less desired, it has less Value; and either result may take place according to circumstances. But the actual Value is determined solely by the relation of the Supply to the Demand. In an unfavourable year corn of a very inferior quality may, in consequence of its scarcity, sell for a very much higher price than the very best quality of corn in a very favourable year, in consequence of its exceeding abundance. But at the same time corn of a superior quality will always sell at a higher price than corn of an inferior quality.

Thus Demand, and not Labour, is the sole *cause* of Value: and the relation between the Demand and the Supply is the sole *regulator* of Value.

15. Hence all Labour which is demanded and paid for, has Value itself, and is wealth, no matter whether it terminate in a material product like that of artisans and ploughmen, or whether it perishes in the act of production, such as that of actors, singers, lawyers, and professional men of all sorts.

And all Labour is *productive* which *draws forth* some remuneration or reward in exchange for itself, no matter whether *it* is embodied in a material product or not. He who earns an income by his labour can live on his earnings, no matter whether *it* is embodied in a material object or not; whether he has earned them in a profession or by selling gold watches, clothes, buns, or soda water.

The exchange of the Labour for its reward is one exchange. If there be a material product as the result of the labour, that material product may be exchanged away for something else. But that is a distinct exchange without any connection with the

former exchange. And indeed the product may have very little value compared to its cost, and may not even be intended to have any. As, for instance, a grand cathedral may be erected at an enormous expense; the labour which the workmen give in exchange for their wages is wealth to them: but what would be the selling value of the cathedral? What would be the selling value of our public buildings and monuments? The country paid immense sums for our old line-of-battle ships, but when iron-clads came in what was the selling value of the old wooden screw liners?

These and innumerable other instances which will suggest themselves to any person of practical experience, shew the utter fallacy of the doctrine that Labour is either the *Measure* or the *Cause* of Value.

16. When one person sells to another the right to his Labour or services, of any description, he becomes the servant of that person, and the remuneration he receives is properly termed WAGES in our homely old English, whatever be the nature of the Labour or the rank of the Labourer. Modern refinement, however, in many cases disdains this name, which is now usually confined to the sum paid for manual labour. Labourers who consider themselves of a higher sort affect other names for their rewards. Officers in the services speak of their *Pay;* professional men of their *Fees; employés* of all sorts of their *Salary*. But all these names merely denote the reward for labour; and all who receive them are labourers, whatever their rank or the nature of their labour may be.

17. Labour, then, being clearly understood to be an exchangeable commodity by itself, Economists agree that its Value is governed by the general law of Demand and Supply. But in the application of this law a very serious omission is usually made. Thus, among many others, Senior says[1] that the Rate of Wages depends "on the extent of the Fund for the maintenance of Labourers compared with the number of labourers to be maintained." And Mill says[2]—"Wages depend mainly upon the demand and supply of labour; or, as it is often expressed, on the

[1] *Political Economy, p.* 153.

[2] *Principles of Political Economy, B. II., ch.* 11, § 1.

proportion between population and capital. . . . . There is unfortunately no mode of expressing by one familiar term the aggregate of what may be called the wages fund of a country; and as the wages of productive labour form nearly the whole of that fund, it is usual to overlook the smaller and less important part, and to say that wages depend upon population and capital. It will be convenient to employ this expression, remembering, however, to consider it as elliptical, and not as a literal statement of the entire truth.

"With these limitations of the terms, wages not only depend on the relative amount of Capital and population, but cannot, under the rule of competition, be affected by anything else. Wages (meaning, of course, the general rate) cannot rise but by an increase of the aggregate funds employed in hiring labourers, or a diminution in the number of competitors for hire; nor fall, except either by a diminution of the funds devoted to paying labour, or by an increase in the number of labourers to be paid."

Now when these writers say that wages cannot be affected by anything else but the relative amount of capital and population, they evidently omit a most important element affecting the Rate of Wages, namely, the QUANTITY OF WORK to be done.

There are evidently two classes of cases, one where the quantity of work to be done remains fixed, or can only be increased within very narrow limits, the other where it can be multiplied indefinitely.

'Thus in agriculture the quantity of work to be done on a farm is very nearly a fixed quantity. When a farm has once been brought into a state of high cultivation, the quantity of labour it requires is very nearly a fixed quantity; and if the agricultural population multiplies beyond the demand for it, agricultural wages must fall notwithstanding any rise that may take place in manufacturing districts.

'But the case is different in manufactures. The demand for manufactures can usually be met to any extent. The quantity of work to be done in manufactures may increase faster than any increase of population, and the increase is effected by the extension of machinery. The wages, therefore, and the condition of the people in a manufacturing district may constantly improve, while the condition of an agricultural population may remain stationary, and even retrograde. So improved processes in machinery may

support an increased manufacturing population, because they tend to lower the price of the product, and so increase the demand for it; but improved processes in machinery cause agriculture to require a diminished population: because in manufactures increased machinery increases and multiplies products; but in agriculture its principal effect is to supersede labour. When the harvest is grown the use of reaping, threshing, and other machines is not to multiply the products, but to supersede and economise the labour necessary to gather them in and prepare them for use.

Thus the main and primary purpose of machinery in manufactures is to multiply and increase production; its secondary effect, though no doubt a most important one, is to diminish the cost of production, because it costs less to erect and maintain the machinery than to maintain the number of men who could do an equal amount of work: but in agriculture the main and primary purpose is to diminish the cost of production.

The effect of artificial manures, draining, &c., is chiefly to multiply the quantity of grain on each stalk, not so much to multiply the number of stalks. Consequently there is but very little more labour required to reap a field of wheat which yields 50 bushels to the acre than one which yield only 30 bushels.

Thus the main effect of machinery in manufactures is to increase the quantity of produce of any given number of persons; the main effect of machinery in agriculture is to diminish the number of people requisite to obtain a given amount of produce. No doubt the effect in both cases is to increase the quantity of produce compared to the population; but there is this most important difference between the two cases; manufactures can usually absorb and provide for the increase of its own population; and not only that, it absorbs and provides for a large amount of immigration from other quarters. But agriculture can not provide for and absorb the natural increase of its own population; and what is to become of the superfluous agricultural population is a very serious consideration indeed. If manufactures were only called upon to provide for the natural increase of its own population, manufacturing wages would constantly tend to rise; if agriculture were called upon to provide for all the increase of its own population, wages would constantly tend to fall. What in some measure tends to lower wages in manufactures and to raise wages in agriculture

is the constant flow of the superfluous population in agriculture to manufactures.

The common doctrine, then, that Wages depend only on the ratio of Population to Capital must be rectified by the introduction of another most important element, namely, the Quantity of Work to be done. Thus the actual amount of wages depend upon the quantity of work to be done, the labourers seeking to do it, and the funds.

And this, among innumerable other cases, shews the impossibility of making Labour the measure of Value, because different kinds of Labour are constantly changing in their Value.

18. It is often said that Wages depend upon the ratio between Population and Capital, as if all the money spent as wages is Capital. This, however, is a great error. The slightest reflection will shew that all the money given in exchange for services or labour can by no means be called Capital; *i. e.*, expended for the purpose of making a profit by it. A very large portion of the money spent in wages is not Capital but Income. Thus the wages of domestic servants, the money paid for professional services of all sorts, is not Capital but Income.

Wages only spent for the purpose of profit, such as manufacturing, agricultural, and commercial, are Capital.

Now there is an important difference to be observed respecting Wages spent as Income, and Wages expended as Capital. In the former case there is no limit to the absolute rule of Demand and Supply; in the latter there is.

If I want professional services of the highest order there is no limit to the sum which must be paid. A surgical operation of great delicacy which may only last a minute may cost perhaps £150 when performed by a person of the most eminent skill. A very distinguished counsel has been known to receive £2,000 for half-an-hour's work. So the Wages which an opulent nobleman may have to give his head cook, or gardener, are determined by nothing but the Law of Demand and Supply.

But when Wages are expended as Capital the case is different. In such cases the amount which a Capitalist can afford to pay as Wages is limited and controlled by the profits which he expects to make by the sale of the product. If the price of the product could be raised indefinitely, wages, no doubt, might also rise

indefinitely. But that is very far from being the case. No expenditure upon the product can force up its price indefinitely. The value of the product is regulated by the great general Law of Demand and Supply; and, consequently, as no Capitalist can continue to produce for any length of time unless he receives the ordinary rate of profit, he cannot afford to give more as wages than will allow him to obtain that profit. Hence, if he cannot reduce wages he must cease to produce. Thus in all cases where Wages are expended as Capital, there is a natural limit which they can by no possibility exceed—however much they may fall below it.

19. Many writers seem to think that there is some definite fund set apart for the maintenance of Labourers, which they call the "Labour fund," or the "Wages fund," which they suppose regulates wages.

Thus, as we have already quoted from Senior, who says that the proximate cause which decides the rate of wages "is the extent of THE Fund [What fund?] for the maintenance of labourers compared with the number of labourers to be maintained."

So Jones, who confines Wealth to material objects only, says Wages depend on the amount of Wealth, devoted to maintaining Labourers.

"The amount of Wealth devoted to the maintenance of labour constitutes the *labour fund* of the world, and the amount so devoted in any country constitutes the Labour fund of that country."

"The third division of the *labour fund* consists of what is properly called Capital, that is, of the stored up results of past labour, used with a view to profit."[1]

So Mill says that unfortunately there is no mode of expressing by one familiar term the aggregate of what may be called the "Wages fund" of a country.

Here we have distinctly affirmed that Wages depend upon the aggregate funds employed in hiring labourers.

"Since, therefore, the rate of wages which results from competition distributes the whole *wages fund* among the whole labouring population."[2]

1 *Lectures on Political Economy, pp.* 114, 414, 415, 420.

2 *Mill. Principles, B. II., ch.* 12.

But what is this Wages fund?

"Now all these writers affirm that the "Wages fund" consists of Capital, which they say is the accumulation of the savings of the *past*. They maintain that it is only increased Capital that can lead to the increased employment of labour, and that increased Capital can only arise from the increased savings of the past.

20. But is this the fact? Is the "Wages fund" confined to material money, the fruits of past savings? Are wages paid in nothing but specie? No one who has the slightest knowledge of practical business can fail to perceive that such an idea is utterly erroneous. Every practical man knows that an enormous mass of Wages is paid in CREDIT.

We will take the example of Scotland, because the system of Credit has been brought to a greater state of development and perfection in that country than in any other; though it is nothing but a practical exemplification of the Theory of Credit which was brought to perfection by the Roman Lawyers 1,300 years ago.

Suppose, as has been the case there, there are large tracts of unreclaimed but improvable land; suppose also there are abundance of people, who perhaps manage to exist on some scanty sustenance but have no work to occupy their time. There being no money to employ these people they stand idle, and the land lies waste.

Suppose, as has often been the case, a wealthy merchant buys this property, and brings down with him 10,000 sovereigns. He sets the people to work, they reclaim the land and sow it; in due time the harvest is reaped, and in course of time the £10,000 is restored to the proprietor with a profit; and the reclaimed land yields an annual rent for ever. Now these 10,000 sovereigns are undoubtedly the result of past labour, they have been used as Capital, and have formed part of the wages fund.

But suppose, again, exactly the same state of matters; fertile reclaimable land; idle people waiting to be employed; but no rich merchant with his box of sovereigns.

A Bank, however, seeing this state of matters, and also that there are trustworthy and industrious farmers and proprietors, opens a branch in the district and sends down a box with 10,000 £1 notes.

It advances these notes to the proprietors and farmers; they hire the labourers, and pay their wages in these £1 notes; the

labourers buy their food and clothes with these £1 notes, which are universally received throughout the country, exactly as if they were sovereigns.

In short, these £1 notes produce exactly the same effects as if they were so many sovereigns. The land is reclaimed and sown, and produces exactly the same revenue as if it had been reclaimed by means of money. The proprietors and farmers repay the bank its advances gradually, and in course of time the debt is extinguished, and it yields an annual rent for ever. But equally in both cases the land has been changed from a dreary desert into smiling corn fields.

Now Wages have been paid in these £1 notes; and therefore they have been part of the "Wages fund." Have they not been "Capital" as much as so much money? The Bank has gained the same profit by advancing them as if they were actual money; the proprietors and farmers have gained the same profits by reclaiming the land by their use as if they were money. They have, then, produced the same effects to the whole community as if they had been money. They were therefore "Capital" in exactly the same sense as money is "Capital." But were they the result of saving?

Similarly all public works in Scotland are formed in precisely the same way; lands, railways, docks, roads, harbours, &c. Whenever the construction of one of these great works is determined on the projectors go to a Bank, and, on receiving proper security, it creates a Cash Credit in their favour, and issues the requisite number of £1 notes—pure Credit—and the work is constructed by means of these notes exactly as if they were so many sovereigns. They have been part of the "Wages fund," and have been "Capital" exactly as if they had been sovereigns: that is, they have been used to produce a profit just like money. What becomes, then, of the doctrine that the "Wages fund" consists exclusively of the accumulation of past labour? or that "Capital" is restricted to the savings of past labour? What becomes of Mill's fundamental proposition that—Industry is limited by Capital? Unless Credit be admitted to be Capital, the proposition is wholly untrue.

Hence we see that not only the accumulation of *past* profits is brought into the "Wages fund," but also the anticipation of *future* profits. As we have over and over again set forth—*Every*

future Profit has a PRESENT VALUE—and that *Present Value* may be brought into the "Wages fund" and made "Capital" of, exactly in the same way as the accumulation of the past.

But exactly the same process goes on in every branch of industry, manufacturing and commercial. The anticipated proceeds of the future are capitalised and brought into the "Wages fund," and conduce to production exactly in the same way as so much money.

And this doctrine we shall find fully admitted by Mill. "Wealth," he says, "is anything which has purchasing power"—"Credit," again he says, "is purchasing power." Therefore, by his own admission, Credit is Wealth. Again, he says that "Bank Notes, Bills of Exchange, and Cheques circulate as money, and perform ALL the functions of it." Now these documents are simply the Rights to future payment, and are Credit. And as Mill admits they perform ALL the functions of money, they, of course, equally with money, may be used as Capital, and form part of the "Wages fund." Thus we see amply admitted by Mill the doctrine we have so often inculcated that—Every future payment has a PRESENT VALUE—which may be bought and sold exactly like money, and perform all the functions of money, and is therefore Wealth in itself.

21. The complete fallacy of the doctrine that the "Wages fund" is limited to existing specie has also been observed by Mr. Longe[1]—"The theory that the wages of labourers is limited by the amount of capital which their employers have at their disposal prior to the sale, and independent of the price of their goods, is very favourable to the doctrine somewhat in vogue among master manufacturers, that the labourer has no right to look to the market price of the goods which he makes, or assists in making, as a measure of the sum which his employers would be able to pay in wages. Of late years, however, the workmen in most of these trades have become too powerful and too intelligent to be hoodwinked in this way, and employers have found it necessary to impress on their workmen that it is not their means, *but the purchasers' demand, which limits the amount which they can afford to pay as wages.* In the late dispute in the iron trade, when the employers taught an unruly and high paid class of

[1] *A refutation of the Wages Fund Theory of Modern Political Economy, p.* 49.

workmen the wholesome lesson that employers can combine as well as labourers, the more intelligent workmen discussed the question on the proper ground, viz., with reference to the purchasers' demand for the finished goods, and their power of supplying themselves elsewhere, if the English supply was too dear; and it being the general opinion that the works could not be kept going unless the price of iron was reduced, the whole body of ironworkers, with the exception of the North Staffordshire men, agreed to submit to the proposed reduction of wages."

22. The most grotesque statement of the "Wages fund" doctrine that we have seen is the following[1]—"I think you are all sufficiently acquainted with the elementary principles of Political Economy to know that the circulating capital of a country is its wages fund. Hence, if we desire to calculate the average money wages received by each labourer we have simply to divide the amount of this capital with the number of the labouring population. It is therefore evident that the average money wages cannot be increased, unless either the circulating capital is augmented or the number of the labouring population is diminished."

Now let us ask what is Circulating Capital? This writer excludes Credit from the title of capital; so that, according to him, only specie can be circulating Capital. But how much specie is there in the nation? No one can tell. But all specie is not used as Capital, as is admitted by all Economists; it is only Capital when used for the purpose of profit. And the same piece of money may be used as Revenue in one Exchange and as Capital in the next. So for our numerator we have an unknown part of an unknown quantity. In the next place, what is the labouring population? Of this we have no definition, and no approximate number given. So that to determine the average money wages of the labouring population we have to take the unknown part of an unknown quantity, to be divided by an unknown quantity!

Let us, however, make a venture at random, and see the result. It is often alleged that the quantity of money in the country is about £80,000,000. Let us suppose that fifty millions of this is used as Capital. Again, let us suppose that the labouring

[1] *Fawcett. Economic position of the British Labourer, p.* 119.

population amounts to 24 millions. Performing the required operation, we find that the average wages of the labouring population are £2 1s. 8d. per head!!

The first error in this mode of statement is evident. The amount of the "Wages fund" does not practically consist of the amount of specie only, but of the amount multiplied into the velocity of its circulation. The same piece of money pays wages in endless succession. Five pounds transferred twenty times is equivalent in Economic effect to £100 transferred once. Consequently the amount of wages will be the amount of specie multiplied into the number of times it is paid. And when this is done, we should find an average more consistent with common sense.

In the next place such a question as this is one to which averages do not apply. Wages differ in every trade; and also for the same trade in different parts of the country. If an artisan in one place in some parts of the year earns more and at other times less, it would be right enough to strike an average in his case. But if wages are usually 20s. a week in Yorkshire and 10s. a week in Dorsetshire, it would be absurd to say that the average is 15s. a week. Or if a skilled watchmaker gets 15s. a day and a hodman gets 3s., it would be absurd to say that wages are on an average 9s. a day.

Again, nothing can be more absurd than to suppose that *all* the labouring population enter into a general competition for the "Wages fund." As this point has been well enforced by Mr. Longe, we will quote him.[1]—"Lastly, assuming that the amount of the funds applicable for paying wages of any particular class or all the different classes of labourers, within any geographical, political, or commercial field, such as either Dorsetshire, or England, or Europe, at any given time, or within any given period, are limited and defined by certain causes, it would be impossible for such funds to be distributed by competition among all the labourers who may happen to be seeking employment in the field or country in which such particular or aggregate wage fund exists.

"The number of labourers whom any class of employers engaged in trade, as, for instance, the Dorsetshire farmers, can employ (unless their capital is to be distributed as the Lancashire relief

[1] *Refutation of the Wages Fund theory*, p. 54.

fund was applied, viz., without any view to its producing any profit or increase of wealth) is determined by the quantity of work they require to be done. If ten thousand labourers did all the work they wanted to have done, *i. e.*, all the ploughing, and harrowing and reaping, there might be any number of surplus labourers in the country, and their competition might reduce wages to sixpence a day, but the farmers would not employ more labour than they wanted, however cheap it was.

"If instead of taking the capital of the farmers of a country, we take the aggregate capital at the disposal of the employers engaged in the different trades of a country as the supposed wage fund, the absurdity of the supposition that the whole of such aggregate fund could be distributed by competition among the different classes of labourers composing its dependent population becomes still more glaring, How could the shoemakers compete with the tailors, or the blacksmith with the glass blowers? or how should the capital which a master shoemaker saved by reducing the wages of his journeymen get into the hands of the master tailor? or why should the money which a reduction in the price of clothes enables the private consumer to spend on other things go to pay or refund the wages of any other class of labourers belonging to his own country? It would clearly be just as likely to be spent in the purchase of foreign wine or in a trip to Switzerland.

"The notion of all the labourers of a country constituting a body of general labourers, capable of competing with each other, and whose 'general' or average wage depends upon the ratio between their number and the aggregate wage fund, is just as absurd as the notion of all the different goods existing in a country at any given time, *e. g.*, the ships, and the steam engines, and the cloth, &c., constituting a stock of general commodities, the general or average price of which is determined by the ratio between the supposed quantity of the whole aggregate stock and the total purchase fund of the community."

23. Thus we see that the true "Wages fund" is not the actual amount of specie in the manufacturers' pocket but the price which the consumers pay for the complete product. And how is this to be obtained before it has been actually received? By means of Banking Credits. This is the precise use and

function of Banks which issue notes. It is to issue notes to form this "Wages fund" in anticipation of the prices paid by the consumers. And thus we see the gigantic importance of a solid banking system to the labouring classes. It multiplies the "Wages fund" a hundred fold, and provides continuous employment for them, so long as there is a prospect of a demand for their products.

And now may be seen the reason why we took so much pains to expose the self-contradictions of Mill on the subject of Credit in a previous chapter. Mill says that wages depend on the ratio of population to capital. But what is Capital? Mill sneers at the imbecility of those who say that Credit is capital. And yet he himself says[1]—"When paper currency [*i. e.*, Credit] is supplied, as in our own country, by bankers and banking companies, the amount is almost wholly turned into PRODUCTIVE CAPITAL. . . . A banker's profession being that of a money lender, his issue of notes is a simple extension of his ordinary occupation. He lends the amount to farmers, manufacturers, or dealers, who employ it in their several businesses. So employed it yields, like any other CAPITAL, wages of labour and profits of stocks. The profit is shared between the banker, who receives interest, and a succession of borrowers, mostly for short periods, who, after paying the interest, gain a profit in addition, or a convenience equivalent to profit. The CAPITAL itself, in the long run, becomes entirely wages, and when replaced by the sale of the produce, becomes wages again: thus affording a perpetual fund for the maintenance of productive labour, and increasing the annual produce of the country by all that can be produced through the means of a CAPITAL of that value."

And among many other passages which might be cited, he says[2]—"Now an effect of this latter character naturally attends some extensions of CREDIT, especially when taking place in the form of Bank Notes, or other instruments of exchange. The additional Bank Notes are in ordinary course first issued to producers or dealers to be employed as CAPITAL."

And it is the same Mill who says also, sneering at the confused notion of those who say that Credit is Capital—"Credit has a great, but not as many people seem to suppose, a magical power; it cannot make something out of nothing. *How often is an*

[1] *Principles of Political Economy, B. II., ch.* 12, § 5.

[2] *Ibid., B. III., ch.* 2, § 1, *Note.*

extension of Credit talked of as equivalent to a creation of Capital, or as if Credit actually were Capital!!"

Now we see that Mill expressly includes Bank Notes under the title of Capital and as part of the "Wages fund"; but he asks how can Credit make something out of Nothing. Now we have shewn that the Roman jurists expressly class Rights as Wealth; Mill allows bank notes, mere rights, to be Capital. Now what are these Rights created out of? Are they formed out of primordial atoms? And what do our readers think of Mill's wonderful logic?

Mill and a number of writers constantly inculcate the doctrine that Capital is solely the accumulation of *past* labour, and can only increase by abstinence, and they call profit the reward of abstinence. But when Banks issue Notes in anticipation of *future* profits, which Mill himself says are productive Capital, how are these notes the result of *past* labour and the fruits of saving? As a matter of fact, the profits made by using Credit exceed the profits made by money many thousand fold.

24. Thus we see at every turn in Economics the indispensable necessity of first establishing clear and distinct conceptions and definitions of Wealth, Capital, Credit, &c. We see in modern commerce the effect of the Roman definition—"Under the title of Wealth RIGHTS are included"—which we shall proceed to develope at greater length in the next chapter. Modern commerce is utterly unintelligible unless Credit be included under the title of Capital; and we see how utterly impossible it is to restrict the term "Wealth" to material objects only.

Thus the fund employed in purchasing Labour consists, like the fund employed in purchasing anything else, of Money and Credit. Mill says a man's purchasing power consists of all his Money and of all his Credit; and this is as true of Labour as of anything else. And it is wholly impossible to say what proportion of the "Wages fund" consists of Money and what of Credit. In Scotland, certainly, the ratio of Credit to money is many thousand fold; and in fact the quantity of industry paid in money in that country is absolutely infinitesimal. And thus we see verified the saying of Daniel Webster—"Credit has done more, a thousand times, to enrich nations than all the mines of all the world." Nothing can shew more clearly how Credit forms the leading part

of the "Wages fund" than the state of a country after a great commercial collapse. Hundreds of thousands of labourers are thrown out of employment and reduced to destitution in the United States of America at the present moment in consequence of the great commercial crisis of 1873, because their "Wages fund" has collapsed, and been annihilated.

25. Having thus shown that Money and Credit are the fund out of which Wages are paid, we have next to consider what circumstances determine the amount of Wages.

It was long stoutly maintained that Wages are governed by the price of food; and this, indeed, was one of the assertions on which the Protectionist system which formerly prevailed in this country was based. Burke said[1]—"The squires of Norfolk had dined when they gave it as their opinion that it (Labour) might or ought to rise or fall with the market of provisions. The rate of wages, in truth, has no *direct* relation to that price. Labour is a commodity like every other, and rises or falls according to the demand. This is in the nature of things."

Nevertheless, Smith says[2]—"The money price of corn regulates that of all other home-made commodities.

"It regulates the money price of labour, which must always be such as to enable the labourer to purchase a quantity of corn sufficient to maintain him and his family. . . .

"But regulating the money price of all the other parts of the rude produce of land, it regulates that of the materials of almost all manufactures. By regulating the money price of labour, it regulates that of manufacturing art and industry; and by regulating both, it regulates that of the complete manufacture. The money price of labour, and of everything that is the produce either of land or labour, must necessarily either rise or fall in proportion to the money price of corn."

Thus it will be seen that Smith explicitly asserts that the price of corn regulates the value of Labour and of all other commodities.

And yet the same Smith also says[3]—"The wages of labour do not in Great Britain fluctuate with the price of provisions(!) These vary everywhere from year to year, frequently from month

[1] *Thoughts and Details on Scarcity, Vol. II., p.* 248. *Bohn's Edit.*

[2] *Wealth of Nations, B. II., ch.* 5. [3] *Ibid., B. I., ch.* 1.

to month. But in many places the money price of labour remains uniformly the same sometimes for half a century together. . . . The high price of provisions during these ten years past (1766—1776) has not in many parts of the kingdom been accompanied with any sensible rise in the money price of labour. . . .

"As the price of provisions varies more from year to year than the wages of labour, so, on the other hand, the wages of labour vary more from place to place. The prices of bread and butcher's meat are generally the same, or very nearly the same, through the greater part of the United Kingdom. These and most other things which are sold by retail, the way in which the labouring poor buy all things, are generally full as cheap or cheaper in great towns than in the remoter parts of the country, for reasons which I shall have to explain hereafter. But the wages of labour in a great town and its neighbourhood are frequently a fourth or a fifth part, twenty or twenty-five per cent., higher than at a few miles distance. Eighteen pence a day may be reckoned the common price of labour in London and its neighbourhood. At a few miles distance it falls to fourteen and fifteen pence. Tenpence may be reckoned its price in Edinburgh and its neighbourhood. At a few miles distance it falls to eightpence, the usual price of common labour through the greater part of the low country of Scotland, where it varies a good deal less than in England. . .

"The variations in the price of labour not only do not correspond either in place or time with those in the price of provisions, *but they are frequently quite opposite!!*

"Grain, the food of the common people, is dearer in Scotland than in England; whence Scotland receives almost every year very large supplies. But English corn must be sold dearer in Scotland, the country to which it is brought, than in England, the country from which it comes; and in proportion to its quality it cannot be sold dearer in Scotland than the Scotch corn that comes to the same market in competition with it. The quality of grain depends chiefly upon the quality of flour or meal which it yields at the mill, and in this respect English grain is so much superior to the Scotch, that though often dearer in appearance, or in proportion to the measure of its bulk, it is generally cheaper in reality, or in proportion to its quality, or even to the measure of its weight. The price of labour, on the contrary, is dearer in

England than in Scotland. If the labouring poor, therefore, can maintain their families in the one part of the United Kingdom, they must be in affluence in the other. Oatmeal, indeed, supplies the common people of Scotland with the greatest and the best part of their food, which is in general much inferior to that of their neighbours of the same rank in England. *This difference however in the mode of their subsistence is not the cause but the effect of the difference in their wages;* though, by a strange misapprehension, I have frequently heard it represented as the cause. It is not because one man keeps a coach while his neighbour walks a-foot, that the one is rich and the other poor; but because the one is rich he keeps a coach, and because the other is poor he walks a-foot."

[Now, who has more clearly exhibited this misapprehension than Smith himself, as we have shewn in the preceding extracts?]

"During the course of the last century, taking one year with another, grain was dearer in both parts of the United Kingdom than during that of the present. . . . . But though it is certain that in both parts of the United Kingdom grain was somewhat dearer in the last century than in the present, it is equally certain that labour was much cheaper, &c."

Now is it possible to have a more flagrant contradiction than Smith's doctrine in these different parts of his work? And as we have shewn that a similar contradiction pervades the whole of his work on almost every point in Economics, we can only leave the reader to judge of the worth of such a book as a scientific authority.

26. Ricardo follows in exactly the same strain[1]—"Labour, like all things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labour is that price which is necessary to enable the labourers one with another to subsist and perpetuate their race, without either increase or diminution." "The natural price of labour depends on the price of food, necessaries, and conveniences required for the support of the labourer and his family. With a rise in the price of food and necessaries, the natural price of labour will rise; with a fall in their price the natural price of labour will fall."—"The

[1] *Principles of Political Economy, p.* 86. *3rd Edit.*

market price of labour is the price which is really paid for it, from the natural operation of the proportion of the supply to the demand; labour is dear when it is scarce, and cheap when it is plentiful. However much the market price of labour may deviate from its natural standard, it has, like commodities, a tendency to conform to it." A little examination will shew how vague and inaccurate the ideas in these sentences are. What are the *natural* food, necessaries, and conveniences of a labourer? The standard varies in every country. Are we to take the wheaten standard of England, the oaten standard of Scotland, or the potatoe standard of Ireland? or the black rye bread standard of Poland? Which of these is the *natural* standard? Wages in the West Riding of Yorkshire used to be 14s., in Dorsetshire 7s. a week—which of these was the *natural* standard? A little reflection will shew that the idea of a natural standard is a mere chimera. The same principle determines the rate of wages in each of these cases; it is the proportion existing between capital, employment, and labourers in each locality. What made wages so low in Ireland and Dorsetshire? The abundance of labourers and the scarcity of capital and employment. What made wages so high in Yorkshire? The abundance of capital and employment and the scarcity of labourers. If any cause produces a change in the relative proportion of these three elements, a change in the rate of wages necessarily results. Since the famine and emigration have relieved Ireland of the superabundance of labourers, wages have risen greatly. Emigration has produced the same effects in Dorsetshire, and if the same proportions as now exist between these three elements be preserved, the ordinary rate of wages will continue as at present. We see, then, the extreme inaccuracy of speaking of the natural price of labour. What Ricardo means by the natural price is nothing more than the usual market price, which has been produced by a long-continued steadiness in the proportions between the elements of wages, but if any causes change that proportion, the ordinary market price changes with it. Hence, we see that the relation of supply and demand is the sole rule that governs wages.

27. It will be seen that Ricardo's views on the subject of labour are influenced by exactly the same error, which is the fundamental defect of his doctrine of Value, namely, an inversion

of cause and effect. It is perfectly manifest that it is not the price of food which regulates wages, but the wages received which indicate the most expensive food which the labourer can afford to buy. Wages in England have not risen because the labourers eat wheaten bread instead of rye bread as formerly, but they eat wheaten bread because their wages enable them to do so. The wages in Ireland were not so low because the people eat potatoes, but the miserable peasantry were driven to feed upon potatoes because their wages were so low; because there were so many labourers and so little employment. So the people in Scotland eat oatmeal porridge and oatcakes because their wages were not sufficient to allow them to eat wheaten bread. Just for the same reason in the northern districts they used to wear kilts because they were too poor to wear better clothes. But since they have become better off they dress like their southern brethren, and they eat wheaten bread to a very much greater extent than formerly. And so it is on the continent of Europe. The people in a great many of the continental countries live so badly because their wages are so low. There are so many people, and there is, comparatively speaking, so little employment. Nothing can shew more clearly the error of the idea that the price of food regulates wages than, on the one hand, the case of the United States of America and Canada, where food is extremely cheap and wages extremely high. What is the reason of this? It is that food is very abundant and labour very scarce. It is nothing but the supply and demand of each article. On the other hand, we may take as a reverse case, the example of the unfortunate needlewomen of London and other cities of western Europe. Garnier remarks[1] exactly the same thing of the needlewomen of Paris. "A Paris, par exemple, tout le travaille d'aiguille est tombé à un taux insuffisant pour fair vivre celles qui n'ont pas d'autre ressource." And Dr. Mayer says that at Lille, the workwomen who make the lace gain from 1d. to 1½d. a day, working 16 hours. And population has increased so much compared to employment, that those who could gain two or three francs a day 30 years ago, in 1845 could gain only one franc, and those the most favoured. At the other extremity of the world, we may take China as an example of the same truth. Travellers give us accounts of the disgusting garbage which the poorer Chinese will eat: now, the

[1] *Elemens d'Economie Politique*, p. 401.

rate of wages there does not depend upon what they eat, but they are driven to eat that abomination because the remuneration for labour is low. And this is on account of the prodigious numbers of the people.

28. The law of supply and demand, then, holds universally with regard to wages. An excessive increase of the people forces down wages by an inevitable law of nature, and as their numbers increase faster than employment, their wages must progressively diminish, and their comfort and scale of living become rapidly deteriorated. Nothing could save the scale of living of the poorer classes of this country from descending to the level of the Irish, or the Chinese, if their numbers went on increasing without a corresponding increase of employment. It is not unusual to hear persons of benevolence, who see the shocking misery which even now prevails among so many in this country, exclaim that employers ought to pay higher wages. But all such ideas are visionary. There is only one effectual mode of relief, and that is to diminish their numbers, by providing outlets for the superabundant hands, until the diminution of their numbers may again raise their wages, so that they can find constant employment, at wages which will enable them to live in comfort.

29. It is no mere speculative opinion that a general and long-continued low price of corn is not only not necessarily accompanied by a low rate of wages, but most probably by the very reverse. The most remarkable continuance of generally fine seasons and abundance of corn ever known occurred in the last century. For the extraordinary period of sixty-five years, from 1701 to 1765, there was, with a few exceptions, a continued series of plentiful harvests. The average price of corn for that period was 16 per cent. less than the average price for the preceding century; but, notwithstanding that, the price of labour rose greatly during the same period, and, what was least to be expected, *agricultural labour rose 16 per cent.* Tooke says[1]—"The fact, indeed, of a rise of money wages in this country, coincidently with a fall in the price of corn during the long interval in question, rests on unquestionable authorities;" and, says Smith—"In Great Britain the real recompense of labour, it has already been shewn, the real

[1] *History of Prices, Vol. I., p. 65.*

quantities of the necessaries and conveniences of life which are given to the labourer, has increased considerably during the course of the present century (*i. e.*, the 18th). The rise in its money price seems to have been the effect, not of any diminution in the value of silver in the general market of Europe, but of a rise in the *real price of labour* in the particular market of Great Britain, owing to the peculiarly happy circumstances of the country;" and "The money price of labour in Great Britain has indeed risen during the course of the present century. This, however, seems to be the effect, not so much of any diminution in the value of silver in the European market, as of an *increase in the demand for labour in Great Britain arising from the great and almost universal prosperity of the country.*"[1] In the latter part of the century, the price of wheat rose enormously in consequence of a long succession of bad harvests, but there was no corresponding rise in wages.

30. It is no doubt true that there is a limit below which the wages of labour cannot fall for any permanent time, and which is determined by the price of food, but this only relates to the very lowest, rudest, and most unskilled species of labour, and even that limit has happily never yet been reached in England, because it depends upon the lowest, cheapest, and worst kind of food capable of supporting man. The poorest labourer in England has now wheaten bread to eat, such as probably, in the Mediæval Ages, for which there has been lately such a ridiculous enthusiasm, a nobleman could not obtain. If such bread as is usually consumed in many a nobleman's house on the continent were given to the inmates of an English workhouse, it would infallibly cause a riot. The lowest class of labourers have fortunately never been reduced to such a point continuously, though it may sometimes happen that when work is scarce, they can earn very little, and then they may be driven to receive relief from public or private charity, which takes them out of the operation of the law of supply and demand. It is also universally observed that when the price of bread rises very high, the wages of the lowest class of labourers never rise in any like proportion. The way of raising the wages of labour, then, is not by raising the price of food, but by diminishing the number of competitors for it, for it is the number of competitors compared with the quantity of work to be

[1] *Wealth of Nations, B. I., ch.* 11.

done, that influences the price of labour, and not the variation in the price of food.

31. J. B. Say has also remarked the erroneousness of the doctrine that the price of food regulates wages[1]—"Experience also contradicts another assertion of Ricardo's. He says that while the price of labour regulates the value of products, it is the price of provisions of first necessity (in Europe, for example, corn) which regulates the price of labour, and that a rise in the price of corn diminishes the rate of profit and raises wages. Well, I am informed by the principal manufacturers of England and France, especially MM. Ternaux and Sons, who have mills at Liege, Louviers, Sedan, Reims, and Paris, it is exactly the contrary which happens. When corn becomes dearer wages go down. This result is not accidental; the same cause is always followed by the same effect; and the effect lasts as long as the cause. The explanation is not difficult; when corn is very high, the labouring classes are obliged to devote to purchasing grain a part of their wages which they would have employed in superior clothing, or rent, or furniture, or more succulent and various food: in a word, they reduce all their consumption: and the want of consumption reduced the required quantity of nearly all other products. Hence the reduction of the demand lowers profits of all sorts as well of masters as workmen."

In fact, the doctrine that the price of food regulates wages is so utterly scouted by every person of practical knowledge that we should not have said so much about it if Ricardo had not still some believers, and his works are still recommended by official sanction in the Universities and the Civil Service. We shall say something more on this point further on.

32. The greater part of Smith's chapter on "Wages and Profits in different employments,"[2] is a curious example of the same inversion of cause and effect, and a consideration of the phenomena detailed in it, will afford a further indication of the truth of the preceding principles. He says that there are five principal circumstances which make up for a small pecuniary gain in some employment, and counter-balance a great one in others:—

[1] *Œuvres diverses*, p. 273.

[2] *Wealth of Nations*, B. I., ch. 10.

1. The agreeableness or disagreeableness of the employments themselves.

2. The easiness and cheapness, or the difficulty and expense, of learning them.

3. The constancy or inconstancy of employment in them.

4. The small or great trust which must be reposed in those who exercise them.

5. The probability or improbability of success in them.

These considerations of Smith have been very generally approved of, and have acquired some celebrity; yet it is quite easy to show that they are are reducible to the general law we have arrived at, and that in some of them Smith has most manifestly inverted cause and effect.

When he says that the wages of the most agreeable trades are lower than the disagreeable ones, the reason is very plain. Persons in general prefer the more agreeable trades, consequently there are more competitors for employment in them; but there is also a necessity for disagreeable trades as well, and higher wages in them must be offered to tempt workmen to embark in them. These causes are manifestly to be referred to the law of supply and demand, the various degrees of desirability of the different trades being merely the circumstances which influence the relation of supply and demand.

33. In the second place Smith has most manifestly inverted cause and effect, and his ideas are pervaded with the radical error of his system. After enumerating several species of business, he says—"Education in the ingenious arts, and in the liberal professions, is still more tedious and expensive. The pecuniary recompense, therefore, of painters and sculptors, of lawyers and physicians, ought to be much more liberal, and it is so accordingly." A very slight consideration will shew that it is exactly the reverse of what Smith says. The rewards of lawyers, doctors, &c., are not high because their education is expensive, but they expend much on education because the rewards are high. There is no better example of the truth of the principle we are contending for, and of the fallacy of the one we are combating, than these cases. There is, probably, no difference whatever in the expense of the education of the most able, and the least able, doctor or lawyer; but there is a prodigious difference in the result, owing

chiefly to the differences in the innate capacities of men, and the success or the contrary will in general depend upon the qualifications of each man; the quality of the result, and not upon the cost of its production. We shall, however, consider these more fully under the last case.

34. The third case is also manifestly reducible to the law of supply and demand, just as the first is, because men naturally seek for constant employment rather than precarious employment, consequently they will crowd into one more than into the other. And the employers in the trade in which work is less constant must necessarily give higher wages than those in which it is more constant, to attract persons to it. Exactly in the same way, in places of trust, the qualities which fit persons for such employments are comparatively rare, and unless a high price be offered, it is not likely that the employers will find a suitable person.

35. The last cause which, according to Smith, influences the wages of labour is the probability or improbability of success in the employment. In considering this case, this celebrated author has suffered himself to be led away by one of the most curious instances of misanology anywhere to be met with. People speak figuratively of life being a "lottery," and of the uncertainty of success in it. Smith, seizing upon the word *lottery*, has been led away into a most curious fancy, which has also deceived some later writers. "The probability that any particular person shall ever be qualified for the employment to which he is educated, is very different in different occupations. In the greater part of the mechanic trades success is almost certain, but very uncertain in the liberal professions. Put your son apprentice to a shoemaker, there is little doubt of his learning to make a pair of shoes; but send him to study the law, it is at least twenty to one if he ever makes such proficiency as will enable him to live by the business. In a perfectly fair lottery, those who draw the prizes ought to gain all that is lost by those who draw the blanks. In a profession where twenty fail for one who succeeds, that one ought to gain all that should have been gained by the unsuccessful twenty. The counsellor-at-law, who perhaps at near forty years of age, begins to make something by his profession, ought to receive the retribution, not only of his

own so tedious and expensive education, but that of more than twenty others who are never likely to make anything of it. How extravagant so ever the fees of counsellors-at-law may sometimes appear, their real retribution is never equal to this. Compute in any particular place what is likely to be annually gained, and what is likely to be annually spent by all the different workmen in any common trade, such as that of shoemakers or weavers, and you will find that the former sum will generally exceed the latter; but make the same computation with regard to all the counsellors and students of law in all the different inns of court, and you will find that their annual gains bear but a very small proportion to their annual expenses, even though you rate the former as high and the latter as low as can well be done. The lottery of the law is, therefore, very far from being a perfectly fair lottery, and that, as well as many other liberal and honorable professions, is, in point of pecuniary gain, evidently under-recompensed."

36. No one who really examines the foregoing ideas can fail to see their utter incongruity. In a lottery the chances of each individual who ventures in it are absolutely equal; no personal qualification can influence his chance in any way whatever; the greatest simpleton may draw the greatest prize, the wisest man may draw a blank. In many cases it may certainly be predicated of an individual who adopts a profession, whether he will succeed or fail, and success in all cases is the result of personal qualifications. In a lottery it is perfectly well known that only a certain number can by any possibility succeed, and all the rest must necessarily fail. In a profession it is quite a matter of possibility that all may attain success, and it is also a matter of possibility that none may attain success sufficient to enable them to live. To carry out Smith's analogy, we might just as well say that poetry is a lottery, and that the sum paid to the good poets should recompense all the waste of time by the bad poets.

37. It is quite evident that the fees of counsel are simply examples of the law of supply and demand. Nothing can be more erroneous than the idea that the fees are high, because the education is high. The truth is, that people spend much money upon a professional education *because* the rewards are so high; and the rewards are so high because they are of so great importance to

mankind, and because great skill in them is comparativaly rare. The fees of a Follett, or a Dunning, or a Scott, were not so high because there were so many Mr. Brieflesses, but simply because the talents of a Follett, or a Dunning, or a Scott, were so rare and so important. If their talents had become more general, the rewards of their labour would have diminished. It is exactly the same law in the other professions alluded to. It is the high rewards that may be won in them, that attracts high talent into them, and it is for the sake of these high rewards that men undergo a long, tedious, and expensive education, and course of labour. Exactly as the Roman tribune said—"*Eo impendi laborem ac periculum . . . magna præmia proponantur.*"[1]

38. It is, then, the universal law of Economics—That people bestow much labour or expense in producing commodities because they expect that others will give a high price for them. It may be a reason for *asking* a high price, that they have bestowed much labour, but that is no reason why others will give it. In many cases it is perfectly well known that the public will give a certain price and no more for an article, and the problem is to produce the article for the price.

39. We must also be on our guard against admitting a specious form of expression which J. B. Say uses,—"Thus, without examining yet, why olive oil is worth 30 sous a pound at Marseilles, and 40 sous at Paris, I say that he who sends it from Marseilles to Paris, *adds* 10 sous to the value of each pound of oil."[2] "Products successively increase their value in passing through the hands of their different producers."[3] It is never the producers that confer value, but the consumers; it is each successive consumer that confers the value. If it were the cost of transport that *added* to its value, it would necessarily follow that to send it back again from Paris to Marseilles would still further add to its value, and to send it backwards and forwards twenty times ought to add twenty times the cost to its value. The truth manifestly is that people incur the cost of transport because they expect that the difference of the value between the two places will repay the cost; but no cost of transport can really add to its

[1] *Livy, IV.*, 35.

[2] *Traité d'Economie Politique, p.* 101. *Edit. Guillaumin.* [3] *Ibid., p.* 531.

value. Thus, a Library or Museum may be brought up to London from the country for sale, but the expenses of the transport do not add to the value of the books, but they are brought up to London because it is expected that their higher value in London will repay the cost of bringing them there.

40. To exemplify, and still further enforce the truth of our formula, we may take the case of diamonds and other precious stones. Their value depends entirely upon their rarity, and the extreme desire of rich persons to possess them, and has no appreciable relation to the labour of finding them. They have acquired a certain estimation in the eyes of men for certain reasons, and they are scarce, and it flatters the pride of men to be the possessors of rare articles. The finding of diamonds is a great hazard, and they are only found in a few places, and of certain sizes. If a few persons were to be so fortunate as to discover a few hundreds of diamonds of large size, their value would be immensely diminished all over the world; nor would it be possible to assign what proportion the labour of producing them would bear to their price. On the other hand, were a million of men to devote themselves to search for them, and if they searched in vain, and found none, that circumstance would not have the smallest effect in raising the value of a single diamond. So that the real truth is, that men are willing to devote themselves to search for diamonds because they are of great value when found. A diamond is not valuable because a great deal of labour has been bestowed on finding it, but a man searches for diamonds because, though he may only find one at rare intervals, the value of it when found is so great that it will repay him for a long course of unsuccessful labour. Thus, also, pearls are not dear because so many fishermen seek for them, but so many fishermen labour to find them because they are highly esteemed, and rich people are willing to pay high prices for the pleasure of possessing them. Hence, we may say that it is true of diamonds and pearls, and all that class of products, that a great deal of labour is bestowed on producing them because a high price is given for them, and that it is a mistake to say that a high price is given for them because a great deal of labour is bestowed on producing them. Sidney Smith was in a fever of anxiety to sell some jewels he had, to set up house, lest mankind

should awake from their folly, and refuse to buy these glittering baubles. No examples can be taken better than these to shew the total want of any necessary relation between *labour* and *value*.

41. An attentive consideration of this last example is of the utmost importance, and is of universal application in Economics. We observe that the *quality* of the diamond is not in any way affected by the quantity of labour bestowed on finding it. A diamond of the first water may be found after a search of five minutes; a search of as many days, months, or years, may only be rewarded by finding a very inferior one. But yet the result of the lesser amount of labour may be far more valuable than the result of the greater amount. This is a universal truth in Economics. In all cases it is the *result*, and that only, which is looked to, wholly independent of the labour by which it has been arrived at.

42. Ricardo has brought forward in support of his fundamental principle, that cost of production regulates value, an article that deserves to be examined. He says[1]—"Gold and Silver, like all other commodities, are valuable only in proportion to the quantity of labour necessary to produce them and bring them to market. Gold is about fifteen times dearer than silver, not because there is a greater demand for it, nor because the supply of *silver is fifteen times greater than that of gold, but solely because fifteen times the quantity of labour is necessary to produce a given quantity of it.*" Such an assertion as that it is fifteen times more expensive to obtain gold than silver carries its own refutation on the very face of it, and is just one of those tests which, being inconsistent with a known truth, proves the fallacy of the whole of Ricardo's argument. A gold mine is not more costly or laborious to work than a lead, or tin, or copper mine. But it is a much *scarcer* metal than any of the others, and it is extremely useful for certain purposes. It is not the greater amount of labour bestowed upon producing gold that gives it its greater comparative value to silver, but its greater comparative scarcity to that metal. So far from its being true, as Ricardo says, that the supply of silver is not fifteen times as large as that of gold, the fact is that until the discovery of California and Australia, the

[1] *Principles of Political Economy and Taxation*, p. 421.

supply of silver was forty times as great as that of gold.[1] The reason why, when it was forty times more abundant, it was only fifteen times less valuable than gold, will be shewn a little further on. Now, this is exactly what Bacon calls a *crucial instance;* and is absolutely decisive of the merits of Ricardo's system. According to his doctrine, the only reason why gold could be fifteen times more valuable than silver would be that it was fifteen times more expensive to produce it. But this is known to be a fallacy, and is decisive of the fallacy of the system built upon such doctrines. If gold were as abundant as silver, it would be much more convenient to have silver coins than gold ones, as an equal quantity of silver would be much lighter and more convenient to carry than the same quantity of gold. It *is*, in fact, the peculiar qualities which render gold so useful as a currency that give it the greater portion of its value.

43. The different value of houses according to the locality in which they are built well exemplifies how greatly more surrounding circumstances influence the value of an article than the cost of its production. It would not cost more to build a house or a range of offices in the heart of the City of London, opposite the Bank of England or the Exchange, than in the most unfrequented suburb, but of what different values they would be! Now, it is clear that the greatly augmented value of the building in the City would be almost entirely due to the great demand for offices in that locality, and would have no reference to the cost of its production. Nay, so much is value affected by external circumstances, that a house or a shop will be far more valuable on one side of a street than on the other, as it may be more fashionable or sunny, or the reverse. So apparently minute are the circumstances that cause great differences in value. Again, an unexpected change in the fashion, which is merely another name for the demand suddenly ceasing, causes the most violent depression in the value of the most expensive articles. A few years ago a species of carriage called *chariots* were the most fashionable of any—now there are very few remaining, and a good chariot which in former times would have cost several hundred pounds, would not now fetch more than a few pounds, the mere value of the wood and iron, because they have been superseded by more

[1] *McCulloch's Commercial Dictionary. Art.: Precious Metals.*

convenient forms of carriages. These examples are sufficient to shew how erroneous it is to think that the value or price of an article can be controlled by its cost of production.

44. The value of pictures, sculpture, and all objects of art is so entirely allowed by the advocates of the law of cost of production regulating value, to be an exception or contradiction to that law, that we need not further allude to them than to remark that they are examples of the law of supply and demand, and are universally allowed to be so.

45. Many railway companies, in regulating their fares, have acted upon an error analogous to the doctrine that the cost of production regulates price. It used to be not an uncommon argument for keeping up fares very high, that the cost of making the railway was very high, and *therefore* the fares must be high. The two things have no relation whatever. The object should be so to regulate the fares as to produce the greatest amount of revenue possible. The companies should have calculated before making the railway the amount of revenue they could probably obtain, which would determine the value of the railway when made, and then the cost of making the railway, and if the revenue would pay the interest of the money expended in making the railway, then they should make it, otherwise not.

46. It is quite easy to shew that the value of an article may diminish, as the cost of its production increases. Let us take the example of a ship, as that will illustrate this principle as well as any other. The value of a ship at any given time (omitting the question of how long she may last) is measured by the amount of freight she can earn. If the demand for ships be great and the number of them few, the value of shipping will, of course, be high; but if the number of ships be increased, while the demand for them remains the same, the value of each will be diminished. Now, if the value of ships be high, it will naturally cause a greater number to be built, which will stimulate industry in that trade, and certainly cause an advance in shipwrights' wages, Thus, the cost of production of each ship will be increased, while each new ship that is built will diminish the value of the whole; and the more that are built will still further diminish their

value, till at last the value of each will diminish so much that it will scarcely exceed the cost of production, and then they will cease to be built. If the demand varies as well as the supply, it is quite easy to discover what its effects must be according as its rate of increase is greater, equal to, or less than the supply.

47. The fundamental fallacy of the doctrine, that the cost of production regulates value, is that it wholly omits to take into consideration the effect that an excess of quantity has in depressing the market. If producers of articles had always a full knowledge of the supply that would be required, and refrained from throwing more on the market than could be taken off at a remunerative price, that doctrine might appear more specious. But all commerce is full of overtrading, and if commodities are thrown upon the market, there is no limit to the depression of price they may undergo, whatever may be their cost of production. When this is the case, the article ceases to be produced until the excessive supply is worked off, and the price has risen on account of the increased proportion of demand over supply. As soon as the enhanced price caused by the limitation of the supply, and by that only, makes it profitable to produce, production will be resumed. If the price continues to rise, production will be still further stimulated, and capital will be attracted into that branch of business, until the increased proportion of supply compared to the demand again causes the price to fall. But in all these cases it is the rise or fall in the price that attracts or repels capital, and not the employment of capital that regulates the price. The idea that cost of production regulates value proceeds upon the supposition that the individual can control the market, whereas in all ordinary cases it is the market that controls the individual. In those exceptional cases where a single individual has such power over the production of any article as to be able sensibly to influence the market, he can of course raise the profits of that article far above the usual commercial profits, simply from his power of keeping competitors out of his line of business.

48. These considerations are sufficient to shew the fallacy of the doctrine, that it is the cost of production which regulates price or value. On the contrary, it is generally the value an article is expected to have, when produced, that causes it to be produced.

The difference between the cost of its production and its value is called the *profit*, and the course of a prudent man would be, first to calculate the cost of production of the article, then to consider what would be its probable value when produced, and if the difference between the two, or the profit, is sufficient to make it worth his while to produce it, he will do so, if not, he should try to discover some more profitable operation. If the value of the article when produced is only equal to, or less than, the cost of production, he must sell at a loss, and repeated operations of this nature will end by ruining him. The history of all commerce is but too full of examples of the value of articles falling below their cost of production, and of mercantile enterprises which never pay their expenses. There is but one way in which a producer can govern price by the cost of production, and that is when he can obtain a command over the supply, and limit it artificially, and not produce more than the public can be made to buy at a particular price. The Dutch acted upon this principle when they conquered the Spice Islands in the Eastern Archipelago. With contemptible selfishness, they cut down three-fourths of the spice-bearing trees, and so artificially enhanced the value of the remainder. It is also said that there is but one mine in England which produces plumbago, or black lead for pencils, and this being in the hands of one proprietor, he carefully limits its annual produce to force up its price in the market.

49. Nothing can be more incorrect in a scientific point of view than the Ricardian doctrine that the price of food regulates the Wages of Labour, and that Cost of Production, which mainly consists of Wages of Labour according to him, regulates value. This is manifestly reasoning in a vicious circle: because what regulates the price of food according to Ricardo? Quantity of Labour. Hence Ricardo says that the Quantity of Labour regulates the price of food, and then that the price of food regulates the price of Labour. Can there be a more striking instance of reasoning in a vicious circle? So far is it from being true that a rise in the price of food causes a rise in the rate of wages, that the effect is generally the reverse, and a rise in the price of food depresses wages. When the community at large has to pay an enhanced price for their food, which is an article of prime necessity, they have less to spare for clothing and other

goods. These being less sought after will diminish in value, consequently as the manufacturer cannot get so much for his goods, he must either diminish the cost of their production, or cease to produce. He must either force down wages, or shut up his mills. So that the necessary result of a considerable rise in the price of food is a fall in wages. That this is the case in manufacturing districts is too notorious to be disputed. Now, the wages of labour in this case depend entirely upon the relative necessities of the workmen and the employers, and their relative power over each other. The workmen will of course resist a fall in wages as long as they can, but if the master cannot reduce them to a certain rate, he cannot repay himself for his outlay, so that if the workmen refuse to work for those wages he must shut up his mill; but if the workmen cannot find employment, they must starve, so they must at last consent to the master's terms. On the other hand, when there is a good sale for the master's products, he is anxious to supply this demand and realize profits, and the workmen soon find this out and refuse to work unless for higher wages; but in this case there is also a limit which the master cannot go beyond, and there he takes his stand as before, and the workmen must yield. It sometimes happens that the workmen are so misguided as to think that by increasing the price of their labour they can force up the market value of the article, which erroneous idea has given rise to a great number of unhappy proceedings, so well known as "strikes," in the manufacturing districts. These strikes have repeatedly happened, both when trades have been in a state of great depression, as well as when they were prosperous; in the former case, when the masters found it necessary to reduce wages, the men combined to resist the reduction; in the latter case, when the men combined to raise their wages, and the masters resisted them, so that the men struck to compel the masters to yield. From these examples, as well as others which will be adduced, it will be seen that, instead of the cost of production regulating the value of an article, it is frequently its value which determines the cost of production.

50. Hence, we see that wages, or the price of labour, are determined by the value of the service at the time it is rendered. If there is a great demand for goods, there is a great demand for men to make them, and every master who has orders to execute is

anxious to engage men to enable him to do so, and the inevitable consequence of this is to give the men a greater power over their employers, and enable them to raise their demands, and the masters can well afford to do so, because though by the rise of wages their profits upon each individual transaction may be diminished, yet, from the greater number of operations, their profits are increased upon the whole. On the contrary, when the demand for goods falls off, and the quantity of work to be done is diminished, there are so many workmen to do it, that each is anxious to secure a share of it for himself, and then the power of the masters increases over the men, and they are enabled to reduce wages, nay, they *must* do so in self-preservation, because the number of their operations being reduced, the profit on each must be increased, to enable them to live. Now, when is it that the demand for goods increases? Common sense and universal experience reply, when the price of food is low, for then the people are able to indulge in other luxuries, and give a spur to labour. On the contrary, when food is high they have less to spare from food, which is an absolute necessity to them, and they must curtail their expenditure on other articles, so that there is less demand for labour, and, in the natural order of things, the price of it falls because the power of the labourers is diminished. The history of prices in this country will be found to confirm the truth of these observations; never was the price of labour so high as when food was cheap; on the contrary, as food rose the price of labour fell. These fluctuations in wages, produced by causes which were ill understood, alarmed and irritated the workmen, and opened an unfortunate field for a number of designing knaves to prey upon their ignorance and misery.

51. It is not surprising that ignorant and uninstructed workmen should fall into this mistake, when we see persons of much better education commit precisely the same error. The fundamental error which brought about so many of these unhappy strikes was, what has been said by persons of repute, that the cost of production of an article regulates its price. Many of these strikes were nothing more than the attempt to carry out to their practical and logical conclusions the doctrines which eminent political economists had enunciated with applause. The workmen thought that by combining to raise the price of their labour they

could force up the price of the article. But these proceedings have usually ended in failure and disaster to their authors, for they neglected to take into their calculation the necessity the public had for the article, and their means of supplying themselves with it elsewhere, which are essential elements in determining the price.

52. Innumerable instances of the truth of these doctrines will present themselves to every one practically acquainted with commerce. A striking one is given by an American writer[1]—"The cost of transport has fixed year after year the limit of agriculture. Translated into miles of railroad, it has been the radius that has described the charmed circle within which grain growing would pay; *for the price of grain at Liverpool fixes its price at any point in this country.* The farmer sells his wheat for the Liverpool price, less the cost of transport to Liverpool. As that cost increases, his profit decreases. When it reaches a certain point his profit is *nil*, and he must stop producing."

So an able writer in a daily paper, speaking of strikes, says[2]—"Where is the remedy? Mainly in the increase of knowledge. Only the other day the landed gentry of England were relying on Protection; it is not so very surprising, therefore, if working men should still hope for prosperity through laws which really impede their own education and cramp the progress of their crafts. But we believe that the lessons taught by unsuccessful strikes are at length sinking deep into the minds of the operatives. The failure of the great Preston strike of 1854 was an experience for the men of Lancashire which they never forgot. As one of their leaders said six years afterwards: 'We now observe the current prices of the trade; *when they increase, we demand a rise of wages;* and our masters, recognising the reason of the thing, at once give us the advance.' This very principle was a short time since admirably carried into practice in Staffordshire. The ironmasters announced a reduction of wages, and the millmen and furnacemen of West Bromwich assembled together, talked over the situation, and a full discussion ended in passing the following resolution:—'That this meeting, after due deliberation, and taking into consideration the state of the trade and the price of iron, cannot in

[1] *A. B. Mason. Fortnightly Review, Sept.*, 1874.

[2] *Daily Telegraph, Jan.* 23, 1865.

justice to their employers and in honour to themselves, do otherwise than accept the reduction as proposed, and are willing to commence work when their employers need their services.' Thus all danger of an industrial war on this occasion is averted, and the calmness, wisdom, and proper feeling here shewn constitute an excellent example to the working classes throughout the land. If all operatives would clearly recognise, as these West Bromwich men have done, that *the wages they can get depend on the state of trade and the price of the commodities they help to produce*, obstinate and unsuccessful strikes would soon belong to the history of the past."

Another striking instance of this principle may be mentioned. In 1872 and 1873 the price of coal rose enormously, to the dismay of every householder in the country. During this period, also, repeated rises in the wages of the colliers were announced. The public are never very nice in observing the order of such events, and many persons thought that the long prophesied failure of our coal supplies had come at last, and that the increased price of the coal was due to the increased cost of obtaining it. The complaints of the public were so loud that a Committee of the House of Commons was appointed to investigate the subject. They instituted a searching inquiry into the whole facts of the case, and they clearly shewed that the enormous rise was due to the immense demand for iron: every ton of pig iron requiring three tons of coal, and every ton of rolled iron requiring six tons of coal. The Committee said that they were "satisfied that the prices of coal which prevailed several years before the present rise commenced were so low that they did not afford a reasonable profit to the owners of collieries in general, nor such remuneration as the workmen might, with regard to the hazardous nature of the labour, reasonably expect."

The witnesses examined by the Committee were unanimous that it was the high price of coal that caused the workmen to demand higher wages, and not the reverse. Mr. Baker said—"The iron trade has, generally speaking, owing to its large consumption, ruled the price of coal and wages too." Mr. Wardell said—"Wages have advanced in proportion to the price of coal." Mr. Dickinson said that—"Coal has been selling at an unprecedentedly high price of late, and the consequence has been that wages have been similarly high." Mr. Macdonald said that—"In

every case in Scotland, the rise in the price of coal preceded the rise in the rate of wages. The workmen followed the employers' demand upon the public with a demand for an advance of wages. The advance of price was announced in the papers, and always preceded the demand of the men. In one case where the men were satisfied that the rise in the price of coal was injurious to the manufacturing interests of the country, they agreed not to press their demand for wages, if the employers would take off the last advance of price." Mr. Halliday described the successive rises in the price of coal which were followed by a rise in wages. He said that the custom from his youth upwards had been that the men should have a rise of 2d. for every 10d. rise in the price of coal: which custom however had not been strictly followed in the late rise. In 1869 wages were 3s. 6d. to 3s. 9d. a day. In 1871 they got an advance of 2d. per ton, in consequence of the rise in coal. In November, 1871, coal advanced 10d., and the men got 1d. In January, 1872, coal rose 10d., and the men got 1d. In May coal rose another 10d., and the men got nothing. In June coal rose 1s. 3d., and the men got 2d. In July coal rose 2s. 6d., and the men got 3d. In September coal rose 5s.; and the men got 3d. In December coal rose 3s. 4d., and the men got 2d. In fact, he said the rise in the workmen's wages had not kept pace with the increased price of coal by a considerable amount.

The Report says—"It is clearly shewn that the *real order of events has been the rise in the price of iron, the rise in the price of coal, and the rise in the rate of wages.* The increased payment per ton for labour employed in getting the coal cannot, therefore, be considered as the primary cause of the large increase in the price of coal; a rise in wages followed upon, rather than preceded, a rise in the price of coal." Since then the great commercial collapse has taken place in America, to which a very large portion of the iron was sent for rail-road purposes, and which was in great part brought on by the excessive construction of railroads. Prices have every where gone down; iron and coal have nearly receded to their former level; and as the necessary consequence, wages have been enormously reduced throughout the whole mining districts, though neither coal nor wages have hitherto fallen to their prices before 1872.

So completely was the fallacy of the doctrine that cost of production, or the price of labour, regulates value understood in

the mining districts that more than 30 years ago Thornycroft established a system in the iron trade by which wages are paid in proportion to price; though it is alleged that a feeling against this system has recently risen among the men.

This system, however, has found favour among our antipodean fellow-citizens. It is said in the *Times*, July 31st, 1874—"In view of the difficulties that surround the labour question at home, I think it desirable to call attention to one mode of settling affairs of this sort adopted by the coal miners at Newcastle, to the north of Sydney. A demonstration signalising the settlement was held lately. The chairman of the miners' association took the opportunity to announce the terms of agreement accepted by the managers and miners, which were as follows:—'First, that the minimum rate of wages payable for hewing and all other work usually performed by miners at each of the above-named collieries, shall be the rates current thereat prior to the 23rd day July, 1872, when the selling price of sound, or best coal, was 8s. per ton, and of small coal 3s. 6d. per ton. Second, that subject to the above limit, the wages payable at each of the above collieries for hewing and all other work usually performed by the miners *shall be regulated by the price of coal, and rise and fall with it.*" Many other rules were laid down for adjusting the details of this scheme: and submitting all disputes which might arise to arbitration, and then the correspondent concludes—"On concluding the above, the chairman announced to coal buyers in Victoria, South Australia, New Zealand, Hong Kong, Batavia, and India, that no hindrance in future would exist through strikes to the supply of ships; the commercial millennium of the port had arrived: strikes and lock-outs were things of the past. Various miners addressed the meeting in the same happy and assuring strain."

Let us hope that these happy anticipations will be verified. At all events, these instances are sufficient to prove the truth of the principle we have been endeavouring to enforce, that it is just as often the Price of an article that governs its cost of production as the reverse. And here we must stop: every one who attends to these discussions must see its truth verified daily. Volumes might be written to verify it, as might be the case with every one of the points discussed in this chapter. What we have said is simply enough to prove the general principle.

On the DIVISION OF LABOUR.

53. We now come to the principle of the DIVISION OF LABOUR, which has acquired great celebrity from Smith having made it the commencement of the *Wealth of Nations*. Several writers, certainly, had observed it before him; but no one had brought it into that prominence which it really deserves as the most powerful method of increasing the quantity of produce, before the use of machinery. And its consequences and applications reach a great deal further than even Smith himself ever perceived.

An eminent Economist, Wakefield, has taken exception to the expression *Division of Labour*, as involving a fundamental misconception. He says that, notwithstanding the popularity of Smith's first chapter, it is not only very deficient, but also full of error.[1]

"The use of the same term in different senses, or of different terms in the same sense, is *primâ facie* evidence that a writer is not thoroughly acquainted with his subject. Both kinds of oversight occur frequently in this chapter. To explain them would be more easy than it is, if, as I have ventured to say in the preface, the meaning of the commonest terms used in treating of Political Economy were not still unsettled.

"No one will deny, however, that there is a wide difference between an operation, work, or business which is performed by labour, and the labour which performs it. The muscular exertion by which a house is built is not the same thing as the operation of building a house; the operation of making a pin is something entirely distinct from the muscular exertion by which the pin is made. These different things are over and over again confounded by Adam Smith. To establish this position, it will be sufficient to mark a number of instances in which he expresses by some other term than "division of labour" what he generally employs that term to express:—

"'The important *business* of making a pin is, in this manner, divided into about eighteen *distinct operations*.'

"'The separation of different *trades* and *employments* from one another.'

"'How many different *trades* are employed [pursued] in each branch of the linen and woollen manufactures.'

[1] *Note to his edition of Wealth of Nations.*

"'So complete a separation of one *business* from another.'

"'It is impossible to separate so entirely the *business* of the grazier from that of the corn farmer as the *trade* of the carpenter is commonly separated from that of the smith.'

"'Philosophy or speculation becomes, like every other *employment*, the principal or sole *trade* or *occupation* of a particular class of citizens. Like every other *employment*, too, it is subdivided into a great number of different branches.'

"'The subdivision of *employment* in philosophy, as well as in every other *business*, improves dexterity and saves time.'

"In all these instances, and not a few more, division is said to take place, not, as the writer says elsewhere, in the labour which performs operations, but in the operations which are performed by labour. The impropriety of using terms so dissimilar to express the same meaning is obvious enough; but this is not a dispute about terms merely, as will be seen by the following curious remarks; curious, that is, as appearing in a treatise on the *division* of labour:—

"'Observe the accommodation of the most common artificer or day-labourer in a civilized and thriving country, and you will perceive that the *number of people* of whose industry a part, though but a small part, has been employed in procuring him accommodation, *exceeds all computation*. The woollen coat, for example, which covers the day-labourer, as coarse and rough as it may appear, is the produce of the *joint labour* of a great multitude of workmen. . . . Without the assistance and *co-operation of many thousands*, the very meanest person in a civilized country could not be provided, even according to, what we very falsely imagine, the easy and simple manner in which he is commonly accommodated.'

"Here then labour is said to be united, as in fact it is, whenever employments are divided. Nature has divided labour into single pairs of hands. The greatest division of labour takes place among those exceedingly barbarous savages who never help each other, who work separately from each other; and division of employments, with all its great results, depend altogether on combination of labour, or co-operation. Such important consequences spring from this principle, that it deserves the most ample illustration.

"'Suppose,' says Dr. Whately, 'a number of travellers proceeding through some nearly desert country, such as many parts of

America, and journeying together in a kind of cafila, or caravan, for the sake of mutual security: when they came to a halting place for the night, they would not fail to make some kind of extemporaneous arrangement, that some should unlaid and fodder the cattle, while others should fetch firewood from the nearest thicket, and others water from the spring: some, in the meantime, would be occupied in pitching tents, or erecting sheds of boughs; others in preparing food for the whole party; while some, again, with their arms in readiness, would be posted as sentinels, in suitable spots, to watch that the rest might not be surprised by bands of robbers. It would be evident to them that but for such an arrangement each man would have to go to the spring for water, and to the wood for fuel; would have to prepare his own meal with almost as much trouble as it costs to dress food for the whole, and would have to perform all these tasks encumbered by his arms, and on the watch for a hostile attack.'

"All this would be evident to them; they would perceive, in short, the great utility of separating the different occupations required for their ease and safety. But in order that the traveller should thus apportion these different occupations among their own body, it would be necessary that they should first combine their labour by agreeing to travel together, and to help each other on the way. If each of them had travelled alone, each man's labour would have been separated or divided, not only from that of all the others, but again amongst the several occupations of going to the wood for fire, and to the spring for water, &c.: if the labour of the traveller had been so divided, there could not have been any, the slightest division of their employments. In like manner, the division of employments which takes place in a pin manufactory, results from, and is wholly dependent on, the union, generally under one roof, of all the labour by which the pins are made. Though no entire pin be made by any one person's united labour; many persons whose labour is united, in order that the whole operation in which it is to perform, may be separated into distinct parts, and easily apportioned among the workmen. It appears, therefore, not only that "division of labour" is a most improper term as commonly used; not only that this is the proper term for expressing a state of things under which what is commonly expressed by it—namely a division of employments—cannot possibly take place; but that all writers on political

economy, from Adam Smith downwards, while treating of the 'causes of improvement in the productive powers of labour,' have overlooked a principle of first rate importance.

"This principle is, that all improvement in the productive powers of labour, including division of employments, depends upon co-operation."

Wakefield, therefore, in his edition of Smith, universally substitutes division of employments for division of labour, and Mill heads his chapter, which treats of this subject, "The Combination of labour."

It must be admitted that Wakefield's criticism on the incorrectness of the expression division of labour is correct. But, nevertheless, when a term has once got a firm and general hold of the public mind, it is very rarely possible to change it; the only thing that can be done is to point out the misconception involved in it, and to fix and define it in its true meaning, Numerous examples of this will occur to every one versed in the history of science. Thus, in Mechanics the terms Centripetal and Centrifugal Force are used to mean exactly the opposite to what they were when they were first invented, owing to the erroneous mechanical conceptions of their originators. The term Division of Labour has acquired such a firm position in Economics, that we shall, in the same way, retain it; but we shall use it in the sense which Wakefield has so clearly pointed out.

54. Smith has, moreover, erred in describing the origin of this principle. He says[1]—"It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility, the propensity to truck, barter, and exchange one thing for another."—"As it is by treaty, by barter, and by purchase that we obtain from one another the greater part of those mutual good offices which we stand in need of, so it is this same trucking disposition which originally gives occasion to the division of labour."—"As it is the power of exchanging that gives occasion to the division of labour."

Now this doctrine, that the principle of the division of labour arises out of the principle of exchange, and therefore cannot exist without it, is fundamentally erroneous. In the Socialistic and Communistic states of society in which all exchanges are perempt-

[1] *Wealth of Nations*, *B. I.*, *ch.* 2, 3.

orily forbidden, and which are organised for the express purpose of abolishing all exchanges, the principle of the division of labour is as thoroughly well understood and acted upon as in Economic societies, where private property and free exchanges exist. For this principle conduces immensely to the increase of the quantity of the produce, no matter whether this produce belongs to the community in general or to each member separately. Whether this produce is to be ultimately distributed by public authority as in Socialist and Communist societies, or by the method of free exchange as in Economic societies, makes no difference: the division of labour only affects the *Quantity* of produce obtained, not the method of its Distribution.

When Smith also asserts that the principle of the division of labour originates in the trucking, bartering, and exchanging propensity of men, which he says is common to all men, and to no other race of animals, which seem to know neither this nor any other species of contract, he had clearly forgotten both his "humanities" and his Natural History. Several writers had not only observed the principle of division of labour among animals, but even originated the name from observing the habits of animals.

Thus Aristotle[1] long ago noticed that in a hive of bees different parties devote themselves to different parts of the common work, and was the first to use the very term division of labour with reference to them.—"And they have each of them their proper work allotted to them: some bring flowers, others bring water; others, again, smooth and perfect the honeycomb."—"And they *divide the work* among themselves; and some work at the honey, some at the young bees, others at the bee bread: and some, again, mould the comb; others bring water to the cells, and mix it with the honey; and others go to work." He also speaks of their public and private life.

So Pliny says[2]—"Thus when in favorable weather the crowd has set forth to labour, some collect the flowers with their feet, some bring water with their mouths, and drops with the tender down of their bodies. The young bees go forth to their work, and bring back their stores in obedience to orders, the older ones work within the hive. For their *duties* within are *divided* (*officia*

[1] *Hist. Animal*, 8, 14, 27, 23.

[2] *Nat. History*, *XI.*, 10.

divisa), some build the comb, some polish it, others fill it, others extract the food from what is brought."

And Virgil, too, as if to confute by anticipation Smith's assertion that no animals but man can enter into a contract, says[1]—"Now come, I will discuss the natural qualities which Jove himself has bestowed upon bees, I will tell for what wages they, following the Curetes' ringing noise and rattling brass, fed the King of heaven within a Cretan cave. They alone have a community of children and jointly own the houses of their city, and pass their life beneath majestic laws. They alone acknowledge a fatherland and settled home, and mindful in summer of the winter that must come, practise hard toil and for the common use store up their gains. For some look to the supply of provisions, and by *settled covenants* (*fœdere pacto*) labour in the fields; part within the confines of their homes lay the tear of the narcissus, and the gluey gum from the bark of trees, to be the first foundation of the hive, next hang along the binding wax; others guide forth the grown offspring, the nation's hope: others pack close a wealth of purest honey, and with clean nectar swell wide the cells. Some there are whose lot has fallen to stand sentinels at the gates, and by turn they watch the watery clouds of heaven, or receive the loads of those that come to the hive, or in close array drive from the homestead the drones, a lazy herd. Hotly the work proceeds, and the stores of odorous honey are sweet with the smell of thyme."

It is said that the details given by the above writers are not absolutely correct, as might naturally be expected, but modern observation has shewn that bees carry their polity and division of labour much further than had been ascertained in ancient times.—"When bees begin to build the hive, they divide themselves into bands, one of which produces materials for the structure; another works upon these and forms them into a rough sketch of the dimensions and partitions of the cells. All this is completed by the second band, who examine and adjust the angles, remove the superfluous wax, and give the work its necessary perfection, and a third band brings provisions to the labourers who cannot leave their work. But no distribution of food is made to those whose charge in collecting propolis and pollen calls them to the field, because it is supposed they will hardly forget themselves; neither

[1] *Georg. IV.*, 149.

is any allowance made to those who begin the architecture of the cells. Their province is very troublesome, because they are obliged to level and extend, as well as cut and adjust the wax to the dimensions required; but then they soon obtain a dismission from this labour and retire to the fields to regale themselves with food, and wear off their fatigue with a more agreeable employment. Those who succeed them draw their mouth, their feet, and the extremity of their body several times over all the work, and never desist until all is polished and completed: and as they frequently need refreshments, and yet are not permitted to retire, there are waiters always attending, who serve them with provisions when they require them. The labourer who has an appetite bends down his trunk before the caterer to intimate that he has an inclination to eat, upon which the other opens his bag of honey, and pours out a few drops: these may be distinctly seen rolling through the hole of his trunk, which insensibly swells in every part the liquid flows through. When this little repast is over, the labourer returns to his work, and his body and feet repeat the same motions as before."[1] And, indeed, to describe fully the various instances in which the division of labour is carried out in the apiarian commonwealth world require a large treatise.

The same may be observed of ants, and, indeed, some naturalists go so far as to say that the brain of the ant is the most surprising thing in creation next to the human brain.—"In no department of natural history is it more necessary to be aware of the proper import of the term instinct than in studying the phenomena presented by the bee; for nowhere is it more difficult to discriminate between the regular operation of implanted motives, and the result of acquired knowledge and habits. The most striking feature of their history, and the one which apparently lays the foundation for those extraordinary qualities which raise them above the level of other insects, is the disposition to social union. It may in general indeed be remarked that animals which associate together, so as to form large communities, display a higher degree of sagacity than those which lead a solitary life. This is especially observable among insects. The spider and *formica leonis* may exhibit particular talents, or practise particular stratagems in the pursuit and capture of their prey; but their history is limited to

[1] *Rennie's Insect Architecture, p.* 131.

a single generation, and embraces none of these interesting relations which obtain between individuals composing the gregarious tribes, such as the ant, the wasp, and the bee. Among these we trace a community of wants and desires, and a mutual intelligence and sympathy, which leads to the constant interchange of good offices, and which, by introducing a *systematic division of labour*, amidst a unity of design, lead to the execution of public works on a scale of astonishing magnitude."[1]

Among Mammalia the beaver is pre-eminently distinguished for the skill with which it constructs great engineering works for the defence and maintenance of its home. Nothing can better exemplify the advantage of co-operation of labour than the huge dams constructed by these animals to maintain the water at an uniform height. Having fixed upon the best situation, they begin to gnaw down one of the largest trees, they can find, taking care that if on the bank of a river it shall fall directly across the stream. As many as can conveniently sit around the chosen tree, continue to gnaw it about eighteen inches from the ground, until it begins to give way. While one party is thus employed another is employed in cutting down smaller trees, and a third in making mortar and soft clay, and drawing it to the edge of the river where the bridge or dam is to be."[2] Many of these dams are of great size, being 200 or 300 yards in length, and 12 feet thick. They are made of the trunks of the trees which the beavers have felled, cut into lengths of about a yard, and they are constructed in such a form as is best adapted to meet the force of the stream, being straight when the stream is not strong, and convex when it is powerful.

The examples in which the principle of the division of labour is carried out among animals might be greatly extended, but they would be far beyond the limits of this work. It may probably be said with safety, that it exists more or less among all animals which live in society, and certainly where they carry on works of construction. Therefore, either Smith's doctrine that the division of labour is the result of reason and speech, is incorrect, or else reason and speech must be conceded to a considerable portion of the lower animals. The latter alternative would probably now be adopted by naturalists; speech, of course, including other

[1] *Encyclo. Brit., Vol. IV., p.* 376. *Art.: Bees.*

[2] *Routledge's Every Boy's Annual*, 1869, *p.* 117.

methods of communicating ideas and purposes besides articulate words.

55. This principle of the Division of Labour was long ago observed and acted upon. In Egypt Herodotus says[1] that every medical man was compelled to confine himself strictly to one branch of the profession and no more.

Blanqui says[2] that at Venice, in 1172, a tribunal was erected to superintend all manufactures, and a law was made which enacted that every workman should confine himself to a single employment in order to secure a better performance of the work: and the same law was enacted by Philip le Bel in France.

Beccaria also announces very clearly the doctrine of the Division of Labour[3]—"From these families spring necessarily the arts, and the different occupations of men. Each one learns by experience by applying the hand and the mind always to the same kind of work and production he finds the results more easy, more abundant, and better, than those which each one would make if each one by himself made everything necessary for himself alone; whence some tend the flocks, some card the wool, some weave it; one cultivates the corn, another makes it into bread; another makes clothes; another builds for the husbandmen and workmen; the arts thus increasing and linking themselves together, and men in this manner dividing themselves into various classes and conditions to their public and private advantage."

Though the principle was recognised, certainly no one brought it into such prominent notice as Smith, and shewed its application so strikingly, in a particular case. His description may be quoted[4]—"The effects of the division of labour in the general business of society will be more easily understood by considering in what manner it operates in some particular manufactures. It is commonly supposed to be carried furthest in some very trifling ones; not, perhaps, that it really is carried further in them than in others of more importance: but in these trifling manufactures which are destined to supply the small wants of but a small number of people, the whole number of workmen must necessarily be small; and these employed in every different branch of the

[1] *Hist., II.*, 84. [2] *Histoire d'Economie Politique, ch.* 20.
[3] *Elementi di Economia Publica, Part I.*, § 9.
[4] *Wealth of Nations, B. I., ch.* 1.

work can often be collected into the same work-house, and placed at once under the view of the spectator. In these great manufactures, on the contrary, which are destined to supply the great wants of the body of the people, every different branch of the work employs so great a number of workmen that it is impossible to collect them all into the same work-house. We can seldom see more, at one time, than those employed in one single branch. Though in such manufactures, therefore, the work may really be divided into a much greater number of parts than in those of a more trifling nature, the division is not near so obvious, and has accordingly been much less observed.

"To take an example, therefore, from a very trifling manufacture—but one in which the division of labour has been very often taken notice of—the trade of the pin-maker, a workman not educated to this business (which the division of labour has rendered a distinct trade), nor acquainted with the use of the machinery employed in it (to the invention of which the same division of labour has probably given occasion), could scarce, perhaps, with his utmost industry make one pin in a day, and certainly could not make twenty. But in the way in which this business is now carried on, not only the whole work is a peculiar trade, but it is divided into a number of branches, of which the greater part are likewise peculiar trades. One man draws out the wire, another straights it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on is a peculiar business, to whiten the pin is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner divided into almost eighteen distinct operations, which, in some manufactories, are all performed by distinct hands, though in the others the same man will sometimes perform two or three of them. I have seen a small manufactory of this kind where ten men only were employed, and where some of them consequently performed two or three distinct operations. But, though they were very poor, and therefore but indifferently accommodated with the necessary machinery, they could, when they exerted themselves, make among them about twelve pounds of pins in a day. There are in a pound of pins upwards of four thousand pins of a middling size. These ten persons, therefore, could make among them upwards of forty-eight

thousand pins in a day. Each person, therefore making a tenth part of forty-eight thousand pins, might be considered as making four thousand eight hundred pins a day. But if they had all wrought separately and independently, and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin, in a day; that is certainly not the two hundred and fortieth, perhaps not the four thousand eight hundredth part of what they are at present capable of performing, in consequence of a proper division and combination of their different operations.

"In every other art and manufacture, the effects of the division of labour are similar to what they are in this very trifling one, though in many of them the labour can neither be so much subdivided, nor reduced to so great a simplicity of operation. The division of labour, however, so far as it can be introduced, occasions in every art a proportionate increase of the productive powers of labour. The separation of different trades and employments from one another, seems to have taken place in consequence of this advantage. This separation, too, is generally carried furthest in those countries which enjoy the highest degree of industry and improvement; what is the work of one man in a rude state of society being generally that of several in an improved one. In every improved society the farmer is generally nothing but a farmer; the manufacturer nothing but a manufacturer. The labour, too, which is necessary to produce any one complete manufacture is almost always divided among a great number of hands. How many different trades are employed in each branch of the linen and woollen manufactures, from the growers of the flax and the wool, to the bleachers and smoothers of the linen, or to the dyers and dressers of the cloth! The nature of agriculture, indeed, does not admit of so many subdivisions of labour, nor of so complete a separation of one business from another, as manufactures. It is impossible to separate so entirely the business of the grazier from that of the corn-farmer, as the trade of the carpenter is commonly separated from that of the smith. The spinner is almost always a distinct person from the weaver: but the ploughman, the harrower, the sower of the seed, and the reaper of the corn, are often the same. The occasions for these different sorts of labour returning with the different seasons of the year, it is impossible that one man should be constantly employed in any one of them."

56. We may also quote from Say an instance equally striking, in which the division of labour is carried almost to a greater extent still, namely, that of playing cards[1]—"It is not the same workmen who prepare the paper of which the cards are made, nor the colours printed on them; and in giving attention to only one employment in this matter we shall find that a pack of cards is the result of several operations of which each one occupies a distinct series of workmen, or workwomen, who are always employed in the same operation. It is always different persons, but always the same set, who sift the packets and the swellings of the paper which injure the quality of its thickness: the same set of persons paste together the three leaves of which each card is formed, and put them in the press: the same set of persons colour the backs of the cards: the same set always print the outlines of the figures: another set print the colours of the same figures: another set dry over the heater the cards when printed: another set polish them on both sides. It is a separate trade to cut them equally: it is another to collect them and form them into packs: another to print the covers of the packs; and yet another to cover them: without counting the duties of the persons employed in buying and selling them, in paying the workmen, and keeping their accounts. In short, those in the trade say that each card, that is, that each little piece of cardboard of the size of the hand, before being fit to be sold, goes through not less than seventy different operations, which are each the subject of a distinct trade. And if there are not seventy kinds of workmen in each manufactory of cards, it is because the division of labour is not carried so far as it might be, and because the same workman performs two, three, or four distinct operations.

"The effect of this separation of employments is immense. I have seen a manufactory of cards in which thirty workmen produced every day 15,500 cards, that is, more than 500 cards per man. And it may be presumed that if each workman was obliged to perform each operation by himself, and supposing him skilful in his art, he would not complete more than two cards a day: and consequently the thirty workmen, instead of making 15,500, would only make 60."

To give similar details of other trades would fill a volume. We will only give one. In watchmaking there are no less than 112

[1] *Cours d'Economie Politique, Part I., ch.* 15.

distinct trades, to each of which a boy may be apprenticed; and of which he knows none but that one. Now we should like to see some similar calculation made, as Say has given of cards, how many watches could these 112 men make in combination, and how many could they make, if each separate man made the whole watch: and not only the number but the quality of the watches!

57. Babbage has called attention to a result of the principle of the division of labour which has been overlooked by other writers. He says[1]—"Now, although all these are important causes, and each has its influence on the result, yet it appears to me that any explanation of the cheapness of manufactured articles, as consequent upon the division of labour, would be incomplete if the following principle were omitted to be stated:—

"That the master manufacturer, by dividing the work to be executed into different processes, each requiring different degrees of skill, or of force, can purchase exactly that precise quantity of both which is necessary for each process, whereas if the whole work were executed by one workman that person must possess sufficient skill to perform the most difficult, and sufficient strength to execute the most laborious, of the operations into which the art is divided.

"As the clear apprehension of this principle upon which a great part of the economy arising from the division of labour depends, is of considerable importance, it may be desirable to point out its precise and numerical application in some specific manufacture. The art of making needles is perhaps, that which I should have selected for the illustration, as comprehending a very large number of processes remarkably different in their nature; but the less difficult art of pin-making, has some claim to attention from its having been used by Adam Smith, and I am confirmed in the choice of it by the circumstance of our possessing a very accurate and minute description of that art as practised in France above half a century ago."

Mr. Babbage then describes the process of pin-making, and shews the different classes of persons employed in the manufacture, from children at 6d. a day to women at 1s. 6d., and men at 5s. 6d. Ten persons, he says, namely, four men, four women, and two children can make one pound of metal into 5,546 pins in seven

[1] *The Economy of Machinery and Manufactures, 4th Edit., p.* 175.

hours and a half at a cost of little more than a shilling, whereas if all the persons employed were of the necessary skill to make the most difficult part, it would cost nearly four times as much.

"The higher the skill required of the workman in any one process of a manufacture, and the smaller the time during which it is employed, so much greater will be the advantage of separating that process from the rest, and devoting one person's attention entirely to it. Had we selected the art of needle-making as our illustration, the economy arising from division of labour would have been still more striking; for the process of tempering the needles requires great skill, attention, and experience, and, although from three to four thousand are tempered at once, the workman is paid a very high rate of wages. In another process of the same manufacture, dry pointing, which also is executed with great rapidity, the wages earned by the workman reach from 7s. to 12s., 15s., and even in some cases to 20s. a day, whilst other processes are carried on by children paid at the rate of 6d. a day."

As a further illustration of this principle we may quote another example of a different sort given in the same work, p. 191—"We have already mentioned what may, perhaps, appear paradoxical to some of our readers—that the division of labour can be applied with equal success to mental as to mechanical operations, and that it ensures in both the same economy of time. A short account of its practical application in the most extensive series of calculations ever executed will afford an interesting illustration of this fact, whilst at the same time it will afford an occasion for shewing that the arrangements which ought to regulate the interior of a manufactory are founded on principles of deeper root than may have been supposed, and are capable of being usefully employed in preparing the road to some of the sublimest investigations of the human mind.

"In the midst of that excitement which accompanied the Revolution of France and the succeeding wars, the ambition of the nation, exhausted by its fatal passion for military renown, was at the same time directed to some of the noblest and more permanent triumphs which mark the era of a people's greatness, and which receive the applause of posterity long after their conquests have been wrested from them, or even when their existence as a nation may be told only by the pages of history. Amongst their enter-

prise of science, the French Government was desirous of producing a series of mathematical tables to facilitate the application of the decimal system which they had so recently adopted. They directed, therefore, their mathematicians to construct such tables on the most extensive scale. Their most distinguished philosophers, responding fully to the calls of their country, invented new methods for this laborious task; and a work completely answering the large demands of the Government was produced in a remarkably short space of time." M. Prony, to whom the superintendence of this great undertaking was confided, in speaking of its commencement, observes—"I devoted myself to it with all the ardour of which I was capable, and I first turned my attention to a general plan to execute it. All the conditions which I had to fulfil demanded the employment of a great number of calculators, and it soon occurred to me to apply to the accomplishment of these tables the *division of labour*, which the arts of commerce employ so usefully to unite perfection in the manufacture along with economy in expense and time." The circumstance which gave rise to this singular application of the principle of the division of labour, is so interesting that no apology is necessary for introducing it from a small pamphlet printed at Paris a few years since, when a proposition was made by the English to the French Government that the two countries should print these tables at their joint expense. The origin of the idea is related in the following extract:—

"It is to the chapter of a justly celebrated English work that is probably due the existence of a work which the British Government wishes to present to the learned world. Here is the anecdote. M. Prony had engaged to the Committees of the Government to prepare for the centesimal division of the circle logarithmic and trigonometrical tables, which should not only leave nothing to desire as regards exactitude, but which should form the vastest and most important monument of calculation which had ever been executed, or even conceived. The logarithms of the numbers from 1 to 200,000 formed a necessary supplement to this work. It was easy for M. Prony to satisfy himself that even by associating with himself three or four able assistants, the greater part of the life he might expect would not suffice for his engagement. He was filled with this melancholy thought, when, happening to be in a bookseller's shop, he saw the handsome

English edition of Smith, published in London in 1776: he opened the work by chance, and hit upon the first chapter which treats of the *division of labour*, and where the manufacture of pins is quoted as an example. He had scarcely read the first pages, when by a kind of inspiration he conceived the idea of putting out his logarithms to *manufacture*, like pins: he was then giving at the Polytechnic School a course of lectures on a part of analysis similar to this kind of work, namely, the method of differences, and its application to interpolation. He went to spend some days in the country, and returned to Paris with the plan of *construction*, which was followed in the execution of it. It resembled two workshops which made separately the same calculations, and served for reciprocal verification.

"The ancient methods of computing tables were altogether inapplicable to such a proceeding. M. Prony, therefore, wishing to avail himself of all the talent of his country in devising new methods, formed the first section of those who were to take part in this enterprise out of five or six of the most eminent mathematicians of France.

"*First Section.*—The duty of this first section was to investigate, amongst the various analytical expressions which could be found for the same function, that which was most readily adapted to simple numerical calculation by many individuals employed at the same time. This section had little or nothing to do with the actual numerical work. When its labours were concluded, the formulæ on the use of which it had decided were delivered to the second section.

"*Second Section.*—This section consisted of seven or eight persons of considerable acquaintance with mathematics, and their duty was to convert into numbers the formulæ put into their hands by the first section, an operation of great labour; and then to deliver out these formulæ to the members of the third section, and receive from them the finished calculations. The members of this second section had certain means of verifying the calculations without the necessity of repeating, or even examining, the whole of the work done by the third section.

"*Third Section.*—The members of this section, whose numbers varied from sixty to eighty, received certain numbers from the second section, and using nothing more than simple addition and subtraction, they returned to that section the tables in a finished

state. It is remarkable that nine-tenths of this class had no knowledge of arithmetic beyond the two first rules which they were then called upon to exercise, and that these persons were usually found more correct in their calculations than those who possessed a more extensive knowledge of the subject.

"When it is stated that the tables thus computed occupy seventeen large folio volumes, some idea, perhaps, may be formed of the labour. From that part executed by the third class, which may almost be termed mechanical, requiring the least knowledge, and by far the greater exertions, the first class were entirely exempt. Such labour can always be purchased at an easy rate. The duties of the second class, although requiring considerable skill in arithmetical operation, were yet in some measure relieved by the higher interest naturally felt in these more difficult operations. The exertions of the first class are not likely to require upon another occasion so much skill and labour as they did upon the first attempt to introduce such a method; but when the completion of a calculating engine shall have produced a substitute for the whole of the third section of computers, the attention of analysts will naturally be directed to simplifying its application by a new discussion of the methods of converting analytical formulæ into numbers."

We may observe that the same method of a division of labour is eminently applicable to effect a work which is one of the most crying wants of the present day, namely, a great Digest of the existing Law of England, as a preparation for a great national Code. The present state of the Law of England, scattered through many hundreds of volumes of Statutes and Cases, filled with the most extraordinary contradictions and absurdities, is a scandal to a civilised Empire, and calls loudly for redress. A Royal Commission was, indeed, appointed some years ago for the purpose, and it made a commencement of the work, which it suddenly abandoned, for reasons which were never explained, but which may be readily imagined. Should the work, however, ever be resumed, it can only be done effectually, economically, and within a reasonable time, by an organisation thoroughly well planned on the principle of the Division of Labour. And if this were undertaken this great national work might be successfully accomplished.

58. Smith says that the great increase of the quantity of work which, in consequence of the division of labour, the same number of people are capable of performing is owing to three different circumstances: 1st, to the increase of dexterity in every particular workman; 2ndly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many.

"*First*, the improvement of the dexterity of the workman necessarily increases the quantity of work he can perform; and the division of labour, by reducing every man's business to some one simple operation, and by making this operation the sole employment of his life, necessarily increases very much the dexterity of the workman. A common smith who, though accustomed to handle the hammer, has never been used to make nails, if, upon some particular occasion, he is obliged to attempt it, will scarce, I am assured, be able to make above two or three hundred nails in a day, and these, too, very bad ones. A smith who has been accustomed to make nails, but whose sole or principal business has not been that of a nailer, can seldom, with his utmost diligence, make more than eight hundred or a thousand nails in a day. I have seen several boys, under twenty years of age, who had never exercised any other trade, and who, when they exerted themselves, could make each of them, upwards of two thousand three hundred nails in a day. The making of a nail, however, is by no means one of the simplest operations. The same person blows the bellows, stirs or mends the fire as there is occasion, heats the iron, and forges part of the nail: in forging the head, too, he is obliged to change his tools. The different operations into which the making of a pin, or of a metal button, is subdivided, are all of them much more simple; and the dexterity of the person, of whose life it has been the sole business to perform them, is usually much greater. The rapidity with which some of the operations of those manufactures are performed exceeds what the human hand could, by those who had never seen them, be supposed capable of acquiring.

"*Secondly*, the advantage which is gained by saving the time commonly lost in passing from one sort of work to another is much greater than we should at first view be apt to imagine it. It is impossible to pass very quickly from one kind of work to

another, that is carried on in a different place and quite different tools. A country weaver who cultivates a small farm, must lose a deal of time in passing from his loom to the field, and from the field to his loom. When the two trades can be carried on in the same work-house, the loss of time is no doubt much less. It is even in this case something considerable. A man commonly saunters a little in turning his hand from one sort of employment to another. When the first begins the new work, he is seldom very keen and hearty; his mind, as they say, does not go to it, and for some time he rather trifles than applies to good purpose. The habit of sauntering, and of indolent, careless application, which is naturally, or rather necessarily, acquired by every country workman who is obliged to change his work and his tools every half hour, and apply his hand in twenty different ways almost every day of his life, renders him almost always slowful and lazy, and incapable of any vigorous application, even on the most pressing occasions. Independent, therefore, of his deficiency in point of dexterity, this cause alone must always reduce considerably the quantity of work which he is capable of performing."

Of these two causes, of which Smith attributes the enormous effects of the principle of the Division of Labour, the first is infinitely the more important. In almost every particular trade it takes an apprentice many years of industry to acquire a perfect mastery: and it seems almost impossible for the same person to acquire the ideas and habits necessary to give perfection in more than one trade. Perfection in one trade often disqualifies the bodily organs for another. The rough work of a carpenter, or a mason, would injure the hand for the delicate operations of the watchmaker, the painter, or the musician. The rapidity of manual execution which can be attained by long habit and devotion to one occupation is marvellous. The same is true, as Mill observes, of mental as of bodily operations. If a man were to learn several trades he would spend the greater part of his life in going through the necessary apprenticeship in each, and then the work in each would be very imperfectly done, from want of time for the necessary practice. How long would a person require to go through the 112 apprenticeships in watchmaking alone? And when 112 men had done that, how many complete watches could they make all working separately, compared to the same number each confined to his own separate department?

When we consider this principle carried out in all the ramifications of trade, we see how the actual quantity of produce obtained is infinitely augmented by the division of labour: and it also explains the doctrine that in an exchange *both* sides gain, which was long so mysterious a puzzle to the former schools of Economists.

Even supposing that the Quantity of Labour in each product is equal, as the Physiocrates and Ricardo maintain, each side gains, because the simple fact of each exchanging something he does not want for something he does want, is a gain. And even supposing the quantity of labour in each product equal, each obtains what he wants by a far less amount of labour than if he had to go through the trouble, labour, and expense of learning to make it for himself. He therefore obtains the result with a far less amount of labour than he otherwise would: and that itself is a gain. Each one by learning one trade thoroughly is as well off as if he had learnt every other, and that is an enormous gain to each member of the society. Hence we see the fallacy of the reasoning of the Physiocrates, who maintained that in an exchange neither side gains, because the quantity of labour in each product is equal; whereas the truth is that both sides gain, because each obtains the result he wishes, by infinitely less labour than he otherwise would.

59. But however excellent Smith's account of the effect of the division of labour may be in increasing the quantity of produce, his doctrines as to its effects on the intelligence and minds of the workers are most inaccurate. He says[1]—"Not only the art of the farmer, the general direction of the operations of husbandry, but many inferior branches of country labour, require much more skill and experience than the greater part of mechanic trades. The man who works upon brass and iron, works with instruments and upon materials of which the temper is always the same, or very nearly the same. But the man who ploughs the ground with a team of horses or oxen works with instruments of which the health, strength, and temper are very different upon different occasions. The condition of the materials he works upon, too, is as variable as that of the instruments which he works with, and both require to be managed with much judgment and discretion.

[1] *Wealth of Nations, B. I., ch.* 10.

The common ploughman, though generally regarded as the pattern of stupidity and ignorance, is seldom defective in judgment or discretion. He is less accustomed, indeed, to social intercourse than the mechanic who lives in a town. His voice and language are more uncouth and more difficult to understand by those who are not used to them. His understanding, however, being accustomed to consider a greater variety of objects, is generally much superior to that of the other, whose whole attention from morning till night is commonly occupied in performing one or two very simple operations. How much the lower ranks of people in the country are really superior to those of the town is well known to every man whom business or curiosity has led to converse much with both."

And again[1]—"In the progress of the division of labour the employment of the far greater part of those who live by labour, that is of the great body of the people, comes to be confined to a few very simple operations; frequently to one or two. But the understanding of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations, of which the effects, too, are always the same, or very nearly the same, has no occasion to exert his understanding or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human being to become. The torpor of his mind renders him not only incapable of relishing or taking a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and, consequently, of forming any just judgment concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country he is altogether incapable of judging; and unless very particular pains have been taken to render him otherwise, he is equally incapable of defending his country in war. The uniformity of his stationary life naturally corrupts the courage of his mind, and makes him regard with abhorrence the irregular, uncertain, and adventurous life of a soldier. It corrupts even the activity of his body, and renders him incapable of exerting his strength with vigour and perseverance in any other employment than that to which he has been

[1] *Wealth of Nations, B. V., ch.* 1.

bred. His dexterity at his own particular trade seems in this manner to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilised society this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless Government takes some pains to prevent it."

Other writers have repeated these lugubrious doctrines, but Say has pointed out that they are to be received with great qualifications: and McCulloch has very severely and justly controverted these assertions of Smith's as contrary to the plainest experience.—"There is no ground whatever for the notion that agricultural labourers are more intelligent than those employed in manufactures and commerce, or that the faculties of the latter are impaired in consequence of their being generally confined to particular callings. The fact is, indeed, completely and distinctly the reverse; the manufacturing population being uniformly better informed than the agricultural, and their intelligence having improved according to the increase of their numbers, and the greater subdivision of their employments. The notion that manufactures are hostile to the social and martial virtues of the workpeople engaged in carrying them on, is, if possible, still more erroneous. The cities and countries both in ancient and modern times that have been more distinguished by their proficiency in the arts and in commerce, have at the same time been the most distinguished by their patriotism and courage. But it is unnecessary to travel out of Great Britain for conclusive proofs of the entire fallacy of every assertion of Dr. Smith in this paragraph. Our manufactures have increased to an unprecedented extent during the last half century, and the division of employments is carried further in England than in any other country; but though Government has done nothing in the way of education, or otherwise, for their improvement, who will presume to say that the people employed in workshops have become 'stupid and ignorant'?—that they are less capable than the agriculturists of judging of 'the great and extensive interests of their country'?—or that they are incapable of defending it in war'? There is not, and there never was, so much as the shadow of a foundation for such imputations. His giving them credit is one of the few instances in which Dr. Smith has suffered his judgment to be swayed by ancient prejudices. He might have known that General Elliot's

regiment of light horse, which so highly distinguished itself during the seven years' war, was principally recruited from among the tailors of the metropolis. But as respects the statement that manufactures weaken the corporeal and martial powers, it is necessary only to call to mind that the great manufacturing and trading towns furnished by far the greater portion of recruits to the army during the late war: for every one will allow that the events of that contest proved, beyond dispute, that whatever other changes may have taken place in the habits of our people, our troops are as much distinguished as ever for capacity to bear fatigue and invincible courage and resolution."

The slightest experience of facts quite reverses Smith's notions of the superiority of agricultural labourers in intellect over artisans; and the reason is obvious. Agricultural labourers are engaged in the same perpetual round of labour, and they mix with but few persons out of their own class, whose ideas and occupations are precisely the same. Artisans work together, and in much greater numbers, and with a much greater variety of employment. They thus are brought into contact with a much greater variety of knowledge and interests, and their intellects are sharpened by the conflict of opinion. They have much greater access to newspapers. As a matter of fact, labourers engaged in subdivision of labour consisting of semi-automatical operations, manifest a higher degree of mental cultivation than others whose occupations are more varied. Hand loom weavers study geometry; shoemakers are proficient in polemics; tailors especially affect politics, while engaged in labour consisting of simple movements, chiefly repetitions of motions, all of which are being superseded by machinery. The machinery itself requires a higher degree of responsible attention by the person directing it, but not all his attention, as assumed by Smith, who has overlooked the psychological fact, which would have become manifest to wider and closer observation, that distinct mental operations may often go on better together than separately. Such labourers in semi-automatical processes, and superintendents, and workers of machinery, often hire persons to read to them during the work, and employers commonly find the work go on the better for the accompaniment of the second train of ideas raised by the reading, as the march of the soldier is improved by the excitement of the imagination created by music. Subdivision of such labour, instead of con-

fining the mind to the process, liberates it: instead of depressing the mind, gives room for its expansion, and opens it to the reception of agreeable impressions. With the educated workpeople singing and poetry attach themselves peculiarly to semi-automatical processes. If a man, being compelled to earn his own livelihood, would study, or indulge the imagination, he would seek for the purpose a peculiarly simple subdivision of labour.

On the RATE OF WAGES *and the* COST OF LABOUR.

60. Ricardo affirms in his dogmatic way that Profits depend exclusively on Wages: that as Wages rise Profits must fall, and *vice versâ:* we have already shewn that this is a plain arithmetical error, and that Wages and Profits may both rise and fall together.

The term Wages, however, is very apt to deceive. Ricardo, indeed, noticed incidentally that there are different qualities of labour; but he alludes to different kinds of labour, such as that of a working jeweller and a common labourer, which adjust themselves in the market. In speaking of the same kind of labour, his doctrine certainly is, that if wages rise, profits must fall; and if wages fall, profits must rise.

This, however, is a most grievous error: and nothing can be more fallacious than to consider daily wages as the measure of the cost of executing work, or as governing Profits; and, as Mr. Brassey says, it is quite possible that work may be more cheaply executed by the same workmen, notwithstanding that their wages have been largely increased.

He gives as instances[1]—"At the commencement of the construction of the North Devon Railway the wages of the labourers were 2s. a day. During the progress of the work their wages were increased to 2s. 6d. and 3s. a day. Nevertheless, it was found that the work was executed more cheaply when the men were earning the higher rate of wages than when they were paid the lower rate. Again, in London, in carrying out a part of the Metropolitan Drainage Works in Oxford Street, the wages of the bricklayers were gradually raised from 6s. to 10s. per day: yet it was found that the brickwork was constructed at a cheaper rate per cubic yard after the wages of the workmen had been raised to 10s. than when they were paid at the rate of 6s. a day."

[1] *Work and Wages, ch.* 3.

In making the Paris and Rouen Railway ten thousand men were employed, of which four thousand were English. The English navvies were paid 5s. a day, while the French were paid 2s. 6d. a day; yet it was found, on comparing the cost of two adjacent cuttings in precisely similar circumstances, that the excavation was made at a lower cost per cubic yard by the English navvies than by the French.

In the same quarry at Bonnières in which Frenchmen, Irishmen, and Englishmen were employed side by side, the Frenchmen received 3 francs, the Irishmen 4, and the Englishmen 6 francs a day. At these different rates the Englishman was found to be the most advantageous workman of the three.[1]

"Both English and French masons were employed in large numbers on the Alderney breakwater in 1852. The Englishmen earned 5s. 6d. to 6s., and as a general rule they made 1s. a day more than the Frenchmen, whose average earnings did not exceed 4s. a day.

"It has been many times stated in the course of this work that from superior skill or greater energy, the more highly paid workman will in many, perhaps in most, cases turn out a greater amount of work in proportion to the wages he receives. An opportunity occurred some years ago, during the construction of the refreshment room at Basingstoke, for testing this problem with great accuracy. On one side of the station a London bricklayer was employed at 5s. 6d. a day, and on the other two country bricklayers at 3s. 6d. a day. It was found, by measuring the amount of work performed, without the knowledge of the men employed, that the one London bricklayer laid, without undue exertion, more bricks in a day than his two less skilful country fellow labourers.

"On the Grand Trunk Railway a number of French-Canadian labourers were employed. Their wages were 6s. 6d. a day, while the Englishmen received from 5s. to 6s. a day; but it was found that 'the English did the greatest amount of work for the money."

The same results are observed in other branches of industry. The shipbuilders of Bordeaux, Marseilles, and Nantes described the collapse of their trade in France, and the impossibility of competing in point of price with the English shipbuilders; and

[1] *Work and Wages*, p. 82.

yet the wages of the English workmen were in most cases nearly double that of the French.

"Mr. Redgrave, one of Her Majesty's Inspectors of Factories, says that, while the foreigner is under the same conditions, as to the raw material, as the English manufacturer, and his fuel is more expensive, his workpeople do not work with the same vigour and steadiness as Englishmen. Consequently, the same number of operatives, employed upon the same machinery, do not produce the same quantity of yarn as in this country. 'All the evidence that has come before me,' he says, 'has gone to prove that there is a great preponderance in favour of this country. Comparing the work of a British with a foreign spinner, the average number of persons employed to spindles is—in France, one person to fourteen spindles: in Russia, one to twenty-eight spindles: in Prussia, one to thirty-seven: in Great Britain, one to seventy-four. But I could find many cotton spinning factories in my district, in which mules containing 2,200 spindles are managed by one minder and two assistants.' 'I have been recently told,' he continues, 'by one who had been an English manager in a factory at Oldenburgh, that though the hours of work were from 5.30 a.m. to 8 p.m. every day, only about the same weight of work was turned off under English overlookers as would be produced in a working day from 6 a.m. 6 p.m. in this country. Under German overlookers the produce was much less. The wages were fifty per cent. less in many cases than in England; but the number of hands, in proportion to machinery, was much larger. In some departments it was in the proportion of five to three. In Russia the inefficiency of the foreign, as compared with the labour of the English operatives, is even more strikingly manifested, for, on a comparison of the wages, supposing the Russian operatives to work only sixty hours a week as they do in England, instead of seventy-five hours a week as they do in Russia, their wages would not be one-fourth the amount earned in England."

Mr. Wells says—"Whereas female labour in the cotton manufacture is paid at from 12s. to 15s. a week in Great Britain; at from 7s. 3d. to 9s. 7d. in France, Belgium, and Germany; at from 2s. 4d. to 2s. 11d. in Russia; the one thing which is most dreaded by the continental manufacturers everywhere is British competition. The demand for protection is loudest in France, Austria, and Russia, where the average wages reach their minimum."

So it is said by Jones—"Two Middlesex mowers will mow in a day as much grass as six Russian serfs, and in spite of the dearness of provisions in England and their cheapness in Russia, the mowing of a quantity of hay, which would cost the English farmer half a copeck, will cost the Russian proprietor three or four copecks.". The Prussian Councillor of State, Jacobi, is considered to have proved that in Russia, where everything is cheap, the labour of the serf is doubly as expensive as that of the labourer in England. In Austria the labour of a serf is one-third of that of a free hired labourer.

Precisely the same impossibility of determining the actual cost of labour by the nominal rate of wages is as fully shewn by the experience of the shipowner as by that of the manufacturer.

"The wages of shipwrights and the pay of seamen are much more moderate in France than with us. Yet the cost of building ships is ten per cent. greater in France than in England; and the wages of a French crew, in consequence of their greater number, involve an expenditure for manning twenty-five per cent. greater than the corresponding expense in an English ship.

"If, on the other hand, we compare the cost of manning an American ship with the cost of manning an English ship, we shall see how our comparatively cheaper labour makes us more prodigal in the use of it. The average proportion of seamen in an English ship is one man to every fifteen tons; in an American ship it is one man to every twenty-five tons."

We have merely taken these few examples from Mr. Brassey's interesting little work *Work and Wages*, which contains much which may be useful to all persons who consider these questions.

On Mill's fourth fundamental proposition regarding Capital.

61. We think that it is now the fitting place to discuss a doctrine of Mill's which we reserved in a former chapter.[1]

Mill lays down four fundamental propositions regarding Capital, of which the first three are as follows:—

1. That industry is limited by Capital.
2. That all Capital is the result of saving.
3. That, although saved, and the result of saving, all Capital is nevertheless consumed, *i. e.*, destroyed.

[1] *Vol. I., ch. 4, § 80.*

Now, with respect to the *first* of these propositions, we have shewn that unless Credit be admitted to be Capital, it is wholly untrue. Because at least ninety-nine hundredths of industry in this country is carried on by means of Credit. If Credit be admitted to be Capital, the proposition is nearer the truth; and it would be still nearer the truth to say that industry is limited by Profit: because in this country wherever there is profit to be made, it can always be anticipated, and utilised as Capital, by means of Credit.

With respect to the *second* of these propositions, we have abundantly demonstrated that it is untrue. It is only *some*, but not *all*, Capital that is the result of saving. Every Lawyer and Economist, including Smith, Say, and Mill himself, have included Bank Notes and other forms of Credit under Capital. Now Credit is not the result of saving; it is a Right upon the *future*. We have moreover given numerous other examples of things being used as Capital which are not the result of saving.

We have shewn that the *third* proposition is equally untrue. It is only *some*, and not *all*, Capital which is destroyed.

We now come to Mill's *fourth* proposition, which originated with Ricardo, and has been adopted by his idolaters, McCulloch and Mill. The proposition is this—"What supports and employs productive labour, is the capital expended in setting it to work, and not the demand of purchasers for the produce of labour when completed. Demand for commodities is not demand for labour."

Now, upon looking at these words, they may be said to be a simple truism. Of course, if we buy a commodity in a shop, we demand the commodity, we do not demand the labour. But of what practical consequence this can be it would be difficult to conceive. Mr. Longe says it is like saying that a demand for beef is not a demand for oxen. When a purchaser buys something in a shop, of course, he does not employ the labour himself directly; but he puts into the shopkeeper's hands the price of it, which the shopkeeper may employ as wages in paying the workmen to produce a similar article to replace the one that is sold: and so on in succession: every succeeding purchaser puts the price of every successive product into the shopkeeper's hands to be employed in buying labour as long as the demand for the article continues. This, as appears to us, is eminently a case where the maxim, *qui facit per alium facit per se*, applies. And what practical conse-

quence to the labouring classes it can be whether the purchaser employs them directly himself, by paying them to produce the article, or pays them through the medium of the shopkeeper, it would be difficult to discover.

Nevertheless, as Mill and his followers attribute extraordinary importance to this doctrine, we shall lay before our readers what he says, and leave them to judge for themselves[1]—

"The demand for commodities determines in what particular branch of production the labour and capital shall be employed; it determines the *direction* of the labour; but not the more or less of the labour itself, or of the maintenance or payment of the labour. These depend on the amount of the capital, or other funds [what funds?] directly devoted to the sustenance and remuneration of labour.

"Suppose, for instance, that there is a demand for velvet; a fund ready to be laid out in buying velvet, but no capital to establish the manufacture. It is of no consequence how great the demand may be, unless capital be attracted into the occupation there will be no velvet made, and, consequently, none bought; unless indeed the desire of the intending purchaser for it is so strong that he employs part of the price he would have paid for it in making advances to workpeople, that they may employ themselves in making velvet: that is, unless he converts part of his income into capital, and invests that capital in the manufacture."

We may observe that in such a case he would not convert his income into capital, unless he intended to sell the velvet with a profit. If he intended to use the velvet himself, what he paid would be income. If a purchaser buys goods from a shopkeeper the shopkeeper converts the money into capital by buying a fresh stock of goods to sell with a profit.

Mill proceeds—"Let us now reverse the hypothesis, and suppose that there is plenty of capital ready for making velvet, but no demand. Velvet will not be made; but there is no particular preference on the part of capital for making velvet. Manufacturers and labourers do not produce for the pleasure of their customers, but for the supply of their own wants, and having still the capital and the labour, which are the essentials of production, they can either produce something else which is in

1 *Principles of Political Economy, B. I., ch. 5, § 9.*

demand, or, if there be no other demand, they themselves have one, and can produce the things which they want for their own consumption. So that the employment afforded to labour does not depend on the purchasers, but upon the capital. I am, of course, not taking into consideration the effects of a sudden change. If the demand ceases unexpectedly, after the commodity to supply it is already produced, this introduces a different element into the question: the capital has actually been consumed in producing something which nobody wants or uses, and it has, therefore, perished, and the employment which it gave to labour is at an end, not because there is no longer a demand, but because there is no longer a capital."

Now, in the last passage what does "Capital" mean? Is it the wages paid to the workmen, or is it the product, for which there is no demand? If the wages be the capital, they do exist: they exist in the hands of the persons to whom they were paid; and these persons may use them as Income or Capital exactly as they please. If the product be the capital, it, of course, ceases to be capital when no one will buy it. But of what consequence is that to the labourers? Mill himself says that a demand for products is not a demand for labour: therefore, according to his own doctrine, whether there be a demand for the product or not, it can in no way affect the labourers. If the workmen are paid for their labour, what does it matter to them what becomes of its produce? The fund which paid them is not destroyed; it remains in existence to effect endless exchanges in succession. How this case helps on Mill's argument it is impossible to perceive.

He proceeds—"This case, therefore, does not test the principle. The proper test is to suppose that the change is gradual and foreseen, and is attended with no waste of capital, the manufacture being discontinued by merely not replacing the machinery as it wears out, and not reinvesting the money as it comes in from the sale of the produce. The capital is thus ready for a new employment in which it will maintain as much labour as before. . . .

"This theorem, that to purchase produce is not to employ labour; *that the demand for labour is constituted by the wages which precede the production*, and not by the demand which may exist for the commodities resulting from the production, is a proposition which greatly needs all the illustration it can receive. It is to common apprehension a paradox; and even among

political economists of reputation, I can hardly point to any except Mr. Ricardo and M. Say, who have kept it constantly and steadily in view. Almost all others occasionally express themselves as if a person who buys commodities, the produce of labour, was an employer of labour, and created a demand for it as really and in the same sense as if he bought the labour itself directly, by the payment of wages. It is no wonder that political economy advances slowly, when such a question as this remains open at its very threshold."

We think, but we are by no means sure, that we have now some glimmer of Mill's meaning in the preceding paragraphs. He says that if there be a fund ready to buy velvet, but no capital to establish a manufacture, no velvet can be bought because there is none made. To take a more familiar instance which we have already considered. Scotland, before the introduction of credit, had abundance of fertile land, and of unemployed people, but no capital to serve as wages in paying them to till and sow the land. Now, of course, there was always a demand for corn; but the Scotch proprietors could grow no corn because they had no capital to pay as wages before the corn was produced, and they could get no capital because they had no corn to sell. They were, therefore, in a deadlock: if they could once get a crop sown, that crop would produce the capital to continue the crop for ever. The real difficulty was to start the operation, which, as Mill truly says, could not be set agoing without capital spent as wages previous to obtaining the produce. *Ce n'est que le premier pas qui coute.* In fact, the corn was waiting for the wages, and the wages were waiting for the corn. It was an Economic position just like that of the two heroes—

> "The Earl of Chatham, with his sabre drawn,
> Was waiting for Sir Richard Strachan;
> Sir Richard, eager to be at 'em,
> Was waiting for the Earl of Chatham."

No doubt there is the difficulty, as Mill says: but we have already pointed out how this difficulty is obviated, and the hiatus bridged over. It is done by means of Bank Notes: a Scotch Bank, seeing this state of matters, establishes a branch in the district, and advances the PRESENT VALUE of the future crops in the form of its own Notes, or Credit, and by this means the grand result is obtained of starting the operation. By this creation of

Credit, used as wages, the land is reclaimed, the seed is sown, and the sale of the crop provides the funds partly to redeem the advances, and partly to renew the operation, which being once started may be carried on for ever. Hence the whole difficulty vanishes into air: and, virtually speaking, the person who buys the produce is the employer of labour, and creates the demand in all respects as effectually as if he himself had bought the labour directly, by the payment of wages.

Having thus shewn how this imaginary difficulty is obviated, we now come to more tangible doctrine—

"I apprehend that, if by demand for labour be meant *the demand by which wages are raised, or the number of labourers in employment increased, demand for commodities does not constitute demand for labour.*"

Such an assertion is so contrary to the plainest experience that it is amazing that Mill could have made it: and, as is almost invariably the case, we have only to quote Mill to confute Mill. Elsewhere he says[1]—"It is a common saying that wages are high when trade is good. The demand for labour in any particular employment is more pressing, *and higher wages are paid, when there is a brisk demand for the commodity produced:* and the contrary when there is what is called a stagnation: then work-people are dismissed, and those who are retained must submit to a reduction of wages: though in these cases there is neither more nor less capital than before. This is true. . . .

"A manufacturer finding a slack demand for his commodity, forbears to employ labourers to increase a stock which he finds it difficult to dispose of: or if he goes on until all his capital is locked up in unsold goods, then, at least, he must of necessity pause until he can get paid for some of them. But no one expects either of these states to be permanent; if he did, he would at the first opportunity remove his capital to some other occupation, in which it would still continue to employ labour. The capital remains unemployed for a time, during which the labour market is overstocked, and wages fall. Afterwards the demand revives, and perhaps becomes unusually brisk, enabling the manufacturer to sell his commodity even faster than he can produce it: his whole capital is then brought into complete efficiency, and if he is able, he borrows capital in addition, which

[1] *Principles of Political Economy, B. II., ch.* 2, § 2.

would otherwise have gone into some other employment [not necessarily so]. At such time wages in his particular occupation rise. If we suppose, what in strictness is not absolutely impossible, that one of these fits of briskness or stagnation should affect all occupations at the same time, wages altogether might undergo a rise or a fall."

Now what can be more contradictory to the doctrine that "demand for commodities is not a demand for labour, and does not affect wages," than these two last passages? What need have we to refute Mill when he has done so effectually himself?

This doctrine of Mill's is so contrary to common sense that it would seem waste of time to refute it. But if it wanted refutation, what more excellent example of it can be had than the evidence and report of the Coal Committee? It was there distinctly proved that the price of iron rose immensely from the enormous demand for it; the immense demand for iron caused an immense demand for coal, and accordingly its price rose immensely: the increased demand for coal, and its increased price, caused an immense demand for labourers, and their wages, too, rose very greatly, though not in proportion to the rise of coal. Who after this can say that a demand for commodities is not a demand for labour? Who can say that an increased demand for the commodity does not lead to a rise of wages? We have already shewn that it is now well understood by the workmen that the "wages fund" is not existing capital, but the Price of the commodity produced; and their wages must rise and fall according to that price. We have shewn that agreements are regularly made that wages shall rise and fall with the price of iron and coal.

Mill's doctrine is founded on the exploded fallacy of Ricardo that it is "cost of production" or "quantity of labour" which regulates Value: without at least denying that it *sometimes* does so, we have irrefragably proved that it is as often just the reverse: and that it is the increased price of the product which provides an increased fund to be divided between masters and workmen: and of this the report of the Coal Committee is a pregnant and decisive instance.

We have thus shewn that Mill's fourth fundamental proposition regarding Capital is as baseless and untrue as the preceding three: and therefore it is wholly unnecessary to consider any more

illustrations he may give. But there is one doctrine of his so extraordinary that we cannot pass it over—

"The consumer has been accustomed to buy velvet, but resolves to discontinue that expense, and to employ the same annual sum in hiring bricklayers. If the common opinion be correct this change in the mode of his expenditure gives no additional employment to labour, but only transfers employment from velvet makers to bricklayers. On closer inspection, however, it will be seen that there is an *increase* of the total sum applied to the remuneration of labour. The velvet manufacturer, supposing him aware of the diminished demand for his commodity, diminishes the production and sets at liberty a corresponding portion of the capital employed in the manufacture. This capital thus withdrawn from the maintenance of velvet makers, is not the same fund with that which the customer employs in maintaining bricklayers: it is a second fund. *There are therefore two funds to be employed in the maintenance and remuneration of labour, where before there was only one.* There is not a transfer of employment from velvet makers to bricklayers (?): there is a new employment created for bricklayers, and a transfer of employment from velvet makers to some other labourers, most probably those who produce the food and other things which the bricklayers consume."

We pause for our readers to examine this astounding doctrine. According to Mill, if all the buyers of commodities were suddenly to discontinue buying them, and employ those very funds which were previously used in buying commodities in hiring labour, it would double the labour fund!! Is it necessary to point out the obvious arithmetical blunder on which it rests? The reader will perceive that by Mill's own supposition the velvet makers are left unemployed. The labourers who are called upon to provide the food and necessaries for the bricklayers, previously provided that food for the velvet makers. Of course, if the velvet makers are left without wages they must starve, and cannot buy food: but the bricklayers can, because the very fund which formerly bought the velvet makers' food is now given to the bricklayers, and buys their food. To the producers of food it makes no difference whether they sell it to bricklayers or velvet makers. But by Mill's arrangement he has simply taken away the funds from the velvet makers, whom he has left to starve, and given them to the

bricklayers, and by doing this he says the labour fund is doubled !! It is plain that so far as regards the food-producers it is only substituting bricklayers for velvet makers, and there is therefore no increased demand for food. Thus, according to Mill, to take away a fund from one set of persons, and to give the very same fund to another set, is to *double* the fund!! Most wonderful logic! This is truly the discovery of the Philosopher's Stone.

We have now found the grand secret to multiply a fund any number of times. According to this doctrine, robbing Peter to pay Paul doubles the fund. If taking away the fund from velvet makers and giving it to bricklayers *doubles* the fund, then taking it away from bricklayers and giving it to carpenters, triples it: taking it away from the carpenters and giving it to ploughmen, quadruples it, and so on to any extent. Why should there ever be any want of funds to employ labour when they can be found so easily, simply by taking them away from some one else?

Experience suggests to us a case where the application of this doctrine would be highly satisfactory. When *Paterfamilias* has a lot of boys clamouring for pocket money, he has only to take half-a-crown out of his pocket and give it to Roderick: Roderick is paid. *Paterfamilas* then takes away the half-crown from Roderick and gives it to Crichton: Crichton is paid. *Paterfamilias* then takes away the half-crown from Crichton and gives it to Keith: Keith is paid. *Paterfamilias* then takes away the half-crown from Keith and replaces it in his own pocket. By this means each of the boys has been paid his pocket money, and *Paterfamilias* has got it in his own pocket as well. It is possible that Roderick, Crichton, and Keith may not fully comprehend the nature of this operation: at all events, *Paterfamilias* is quite satisfied with it. If the boys feel any difficulty about it, if they have an imaginary vacancy in their pockets, where the half-crown is not, *Paterfamilias* simply refers them to Mill, the logical Pope of the British people, who will explain to them quite satisfactorily that by this operation the fund has been quadrupled, and that they have each had their pocket money, and leaves them to digest this elementary lesson in Logic and Economics as best they may. And this is a principle of very extensive application; which shews that Economics is well worth the study of all *Patrumfamiliarum*.

We may, therefore, dismiss Mill's fourth fundamental proposition regarding Capital to the same limbo as the other three.

And we cannot help observing that this is a striking example of the folly of literary men writing on subjects of which they have no knowledge. Here is a whole chapter of Mill, containing 30 pages, which is a complete mass of errors in itself, and on each separate part of it we have shewn that Mill has contradicted himself. And thus the young student's mind is filled with erroneous notions on the fundamental principles of the subject, which he must utterly exterminate if he would understand modern commerce.

On the WORKMAN'S SHARE OF THE PRICE.

62. We have seen that the rough, coarse statement that the "Wages Fund" is simply existing Capital, and that the average Rate of Wages is simply the ratio between this capital and population, and that all the labourers in the kingdom—lawyers, medical men, carpenters, artists, clerks, ploughmen, artisans, &c.—are competing for this fund, and so obtain an average of about £2 a year, is a simple absurdity. Smith long ago observed that the same piece of money pays different persons' incomes in succession[1]—"The amount of the metal pieces which are annually paid to an individual is often precisely equal to his revenue, and is upon that account the shortest and best account of its value. But the amount of the metal pieces which circulate in a society can never be equal to the revenue of all its members. As the same guinea which pays the weekly pension of one man to-day may pay that of another to-morrow, and that of a third the day thereafter, the amount of the metal pieces which annually circulate in any country must always be of much less value than the whole money pensions annually paid to them." If writers had only thought of this obvious truth of Smith's, they never would have committed such an error as saying that the average rate of wages is simply the ratio between population and capital. At all events, even supposing that it consisted of nothing but specie, it would be the amount of specie multiplied by the number of times it is paid away in the course of the year. However, even that is a very inadequate account of the Wages Fund. And to suppose that the average rate of wages is simply the ratio between capital and workmen is as absurd as to suppose that the average price of goods is simply the ratio between goods and specie.

[1] *Wealth of Nations, B. II., ch.* 2.

The true fund which provides for Wages, Profits, Rent, Cost of Materials, or anything else, is the Price of the product: and in case of necessity this fund is anticipated by means of Banking Credits.

This is the fund, and, in ordinary times, this only is the fund, which Capitalists and Workmen have to divide between them: it can by no possibility be exceeded, and, of course, the higher the price, the greater is the fund for division.

But the whole of this fund is not available for division: first of all there must be deducted a sum sufficient to maintain all the fixed and circulating capital in efficient repair and full working order. Then there must be also deducted a fair interest on the sum invested as fixed and circulating capital. Every intelligent workman must admit that the capital must be maintained in full efficiency, and also produce the average rate of interest, or else it would be removed from that species of occupation to something else. So the payment of rent must also come out of it, which is only another name for interest on capital. After making these deductions from the price of the product, the remainder is the fund available for division between masters and workmen, as the reward of their labour—labour, of course, including skill as well as manual industry.

Masters and workmen, however, often take different views as to the principle on which this fund should be divided.

The masters' view often is, that Labour is simply a commodity, which has its market value like any other, governed by the general law of Demand and Supply: and that the workmen have no right to inquire into the profits which they make by their skill and foresight, or which may accrue to them by a favorable turn in the market.

Workmen, however, are often far from agreeing to this view of the matter. They, or at least the reasonable ones, admit that the Capitalist is entitled to fair profits on the capital engaged, and also to a reasonable reward for skill, management, superintendence, &c. After that, however, they think that the remainder should be divided among themselves as wages.

To which the masters reply, that in many cases in certain trades, the business is often carried on at a heavy loss, and that if the workmen are to appropriate all the profits to themselves, they must also be called upon to share the losses: which is, as a

matter of fact, impracticable: and, therefore, they have no right to share all the profits.

In many cases where expensive machinery is employed, like in cotton mills, the machinery must be kept going at any cost, and in a period of depression masters work at a heavy daily loss, simply to prevent the machinery deteriorating, and the workpeople from starving, and the necessity of breaking up their establishment. Now if the workpeople devour all the profits in time of prosperity, where are the funds to come from to maintain them in a period of depression? If the bees devour all the honey in summer, what is to feed them in winter? Hence it is plainly to the real advantage of the workpeople themselves that they should not devour all the profits as soon as they are made. By allowing them to accumulate in the hands of the masters they are in reality laying up an insurance fund for themselves for a rainy day.

Now this portion of the price of the product is a superior limit which wages cannot permanently exceed. It is a cast iron limit—the result of the inexorable law of Demand and Supply which imposes a superior limit on wages.

Now we may observe that there are two kinds of labour in commerce, one of which is necessary to produce the profit, the other which is not.

In a merchant's office, or in a bank, the clerks, servants, messengers, porters, &c., contribute nothing to the success of the business. Such labour as theirs is subject to the simple rule of Demand and Supply. They have no shadow of a claim to demand a share of the profits; and if the heads of the establishment give them a *bonus* in a successful year, that is mere grace and favour. So the servants of a railway company, engine drivers, guards, porters, and clerks, contribute nothing to the success of the enterprise. Their labour is a mere commodity, which must be paid for whether the line pays any dividend or not. They have no more claim to have a share of the profits than if the company buys engines and carriages from another company, that company would have a claim to be paid for their engines and carriages according to the profits the railway company was earning. Such persons have no more claim to a share of the profits than domestic servants would have to higher wages if their master were successful in business.

But the labour of operatives, miners, and artisans, stands on a

different footing altogether. Their labour, their skill, is indispensably necessary, and conduces directly to obtain the product and the profit. Their labour may justly be styled co-operative with that of the master: they are in reality quasi-partners with the capitalist in obtaining the profits, and without them the profits could not be made, and the master obtains a distinct profit out of the labour of such workmen which he can estimate in a very different sense to that of the labour of the other class.

The claim of such workmen to a share of the profit which is distinctly due to their work, stands on a totally different footing from that of the other class. It is now pretty generally recognised that such workmen have an equitable claim to a certain share of the profit which is the result of the joint efforts of the master and workmen: though what that share should be, and how they are to obtain it, is a very different matter: moreover, it is far easier to determine in some kinds of business than in others.

63. Mr. Brassey says that[1]—"there is a maximum limit above which wages cannot rise, and a minimum below which they cannot fall. The minimum is determined by the cost of living according to the standard adopted by the people. Wages cannot long continue below the amount necessary for the support of the labourer and his family. On the other hand, wages cannot long continue so high as to deprive the employer of a fair return upon his capital, and a reasonable reward for the application of his time and abilities to the conduct of his business. If wages exceed the maximum limit determined by the necessity of fulfilling the conditions enumerated, capital will no longer be embarked in undertakings from which no adequate return can be obtained."

What Mr. Brassey says of the superior limit of wages is true; but what he says of the inferior limit is subject to great qualifications. While no power on earth can raise wages above the superior limit, which is determined by the inexorable law of Demand and Supply, the inferior limit is, unfortunately, very elastic. If there is only a certain amount of work to be done, and workmen persist in crowding into it, nothing can prevent their outbidding one another and lowering wages: and as their wages go down under this competition, so must their scale of living deteriorate. Was it because potatoes were so cheap that

1 *Work and Wages*, ch. 3.

Irish wages were so low? Certainly not: it was the excessive population of Ireland, whose numbers were multiplied by a vicious system of small holdings, created for political purposes, and the absence of an effective poor-law, and the deficiency of employment for them, that compelled them to resort to potatoes for sustenance, and we all know the consequences. So that, even if it were true, this law could not take effect until the very lowest and cheapest food that would support human life, were discovered. To say that scale of living regulates wages is only true when the law of Demand and Supply is called in to aid it, and means be taken to limit the numbers of workmen, so that they can enforce their demand for wages to afford them superior food. There must be found some method of removing the superfluous numbers. In China, as is well known, infanticide is practised to an enormous extent: babies are destroyed with no more compunction than young kittens and puppies. In many continental States the most rigorous legal restrictions are placed on marriages; while in other countries emigration is the sovereign remedy.

64. A passionate cry, however, has gone up from many working men that human flesh and blood should not be treated like dead and senseless commodities, by the cold inflexible laws of Demand and Supply. They, and many of their self-appointed advocates, maintain that they have an absolute right to have such wages as will sustain themselves and their families in comfort, or, at least, that the State is bound to provide work for them. They abuse the science of Political Economy because it simply explains certain inevitable laws under which they live, and whose influence they cannot escape from. The science of Economics, or Political Economy, is not the *cause* of these laws, it simply explains them, as they exist. To vituperate Economics on account of human misfortunes is just as absurd as to vituperate the science of Mechanics because if a man were to stand under a falling house or mountain it would crush him; or to vituperate the science of Chemistry because if a man were to take a dose of arsenic or prussic acid it would kill him; or if he were to stand on a barrel of gunpowder it might explode and blow him to pieces; or to vituperate the science of Medicine because a man may die of a fever.

Mechanics, Chemistry, and Medicine are not the *causes* of these

human calamities; they only investigate their causes, and endeavour to discover the remedies applicable to them. So Economics is not the *cause* of human misery; it only investigates its causes, and points out the appropriate remedy by which it can be alleviated, so far as is consistent with the nature of things.

But men treat Economics as they do Fortune—

"Quest' è colei, che tanto è posta in croce
Pur da color, che le dovrian dar lode,
Dandole biasmo a torto e mala voce.
Ma ella s' è beata, e ciò non ode."[1]

"This is she who is so execrated by those who ought rather to give her praise, wrongfully repaying her with curses and malediction. But she is blessed, and heeds not what they say."

If only a full and true picture of the evils which erroneous doctrines and practices in Economics have inflicted upon the human race could be presented, men would hail Economics as beneficent a science as Medicine. For, like Medicine, it arose from the study of the calamities and miseries of men, and its business is to explain their causes and point out the remedy.

65. The doctrine that human beings should not be subject to the usual law of Demand and Supply, and that every workman is entitled to have work or wages found for him sufficient to enable him to live and bring up his family in comfort, is a very specious one, and, under the name of the *droit au travail*, has been very widespread among our neighbours across the channel. It has been tried there many times, but always with the most disastrous results, as we have shewn elsewhere.[2] Experience and reason, however, shew that it is entirely erroneous. It is not *men* who are purchased, but their *labour:* and their labour is a commodity subject to exactly the same laws of Value as all other commodities. If a Shakespeare, a Macaulay, or a Scott, were set to do the work of a copying clerk, they would not be paid as Shakespeare, Macaulay, or Scott, but for the work of a copying clerk. If the rule could be applied to labour, it must be also applied to commodities. For how is Labour paid? Out of the price of the commodity. If a labourer offers the produce of his labour for sale, it is the demand for the commodity which gives value to his labour. Or if he is paid wages to produce a commodity, the

[1] *Dante.. Inferno, c.* 7, 91.

[2] *Dictionary of Political Economy. Art.: Ateliers Nationaux.*

master only pays him those wages because he expects that there will be a demand for the commodity; and he can only pay him wages in proportion to the price he expects to obtain for the commodity. Hence we see what a palpable absurdity the Ricardo-Mill doctrine is, that Demand for commodities is not a demand for labour! To say, therefore, that a certain price should be fixed for labour, is as much as to say that a certain price should be fixed for commodities. An error, indeed, which long prevailed, but which is now completely exploded. If, therefore, the price of commodities is left exclusively to be governed by the law of Demand and Supply, it follows as a necessary and inevitable consequence that the price of labour must be so too: for it is the expected price of the product which is the sole inducement to pay wages, and regulates their amount.

But, in fact, if the *droit au travail* be admitted in principle at all, it cannot be restricted to handicraftsmen. If the shoemaker is entitled to call on the State to provide him with shoes to make, when there are no feet to wear them; if the mason is entitled to call upon the State to employ him to build houses, when there is no one to live in them; if the tailor can call upon the State to pay him to make endless coats, when there are no backs to be covered:—why, the same law is good for the lawyer, the doctor, the artist, the author, the editor. Every man who chooses to adopt the law as a profession should have a certain number of briefs deposited by the State every morning on his breakfast table: every painter should be commissioned to paint endless Madonnas: every sculptor should be employed to produce perpetual Apollos: every author should have a certain number of copies of his work ordered by the State, which criminals, perhaps, might be sentenced to read: every editor should have a certain number of copies of his paper ordered by the State: though it might be somewhat of a puzzle to apply this rule to medical men and surgeons, as it is not easy to see how the State could provide patients and broken limbs at will. The rule that is good for one class is good for all classes: it is quite absurd at the present day to suppose that the various classes of society can be governed by different special laws.

The fallacy which pervades the French theory of the *droit au travail* is manifest. It demands that work shall be found for the workmen of the nature they are accustomed to. Now, why is it

that the workmen in any particular trade are in distress? Because there is not a sufficient *demand* for their labour. Because that species of labour is over-abundant. All commercial difficulties arise from *over-production*, in one form or another, and never from *under-production*. And all commercial difficulties may be reduced to this general form of expression, that traders have provided, or got on hand, more of some commodity than is suitable for the circumstances of the time. And this is equally true, whether it arises from incautious speculation in that particular article, or whether it arises from some great deficiency in some great staple article of food, as corn. Because, if through a great deficiency of food the price of it rises very high, and takes away the custom from other articles of commerce, which lowers their price, and injures their holders, still the same general expression is true, that they are brought into trouble by having more of certain commodities than is suitable to the circumstances of the time. And this is over-production, no matter from what causes it arises. To provide more of any article then, which is already overabundant, can only aggravate the evil. What is really wanted is more *demand*. Now the State can, of course, if it pleases, produce, but it never can create *demand*. Consequently the only result which those who produce, by extraneous assistance, more than is wanted, can effect, is to aggravate and extend still further the area of suffering, and to reduce those who can maintain themselves to the same state as those who are already dependent on the public. Consequently, if the right to labour be admitted, it is indispensably necessary that the work provided should be of some nature wholly different from the workman's usual occupation; and, indeed, it ought to be work which does not come into competition with any independent workman. And this is precisely the difference between the French *droit au travail* and the English Poor Law. In England the *droit au travail* is admitted. It is English Law that if persons cannot find work to support them they are entitled to seek work from the State. The sole, but most essential, distinction in principle is, that the French doctrine is that the work provided must be such as the workman pleases, the English doctrine is that it must be such as the State pleases. This is enough on this point for this place. We must defer any further remarks till the Chapter on Poor Laws.

66. We may observe that Mr. R. Kettle, County Court Judge of Worcestershire, a gentleman of great experience and success in adjusting disputes between masters and men, takes exactly the same view of the "Wages Fund" as we have set forth in the preceding paragraphs; that it is not simply existing capital, but the price of the product. He says[1]—"In the old established relation between master and men, the experience of many years had fixed the price at which it was safe for the employer to guarantee full work: and for the journeyman to accept a certainty rather than incur the risk of independent trading. By tacit consent, founded upon long experience, there was a rate from which in good times wages would rise, and in bad times fall. In the shoe trade variations in wages were very small. The journeyman knew well the selling price of the article he made, and what the material cost, and he could easily work the simple arithmetic which would tell him his wages fund. Both parties knew that if the proportions of profit and wages were not fairly adjusted the workman could, by the exercise of a little thrift and self-denial, emancipate himself from the position of a journeyman. There was no trouble about adjusting demand and supply: they were convertible terms with production and consumption, and these two were near neighbours, so that the work of the hands easily balanced the wants of the feet.

"Now, let us look at the factory operative and the mill owner meeting to make a bargain. First as to the normal rate of wages. That will depend upon how you constitute the wages fund. The most fruitful source of disagreement between masters and men at present is the uncertainty as to what portion of the exchangeable value of the joint product of labour and capital—that is, of price—should go into the wages fund. There is a complete unity of interest between masters and men throughout the whole course of production and exchange—their interest is that the combined action of capital and labour shall produce as much as possible, and that the product should exchange for as high a price as possible. Immediately the commodity is converted into price their interests diverge: the employer's interest then is that a large portion of price should be reserved for the profit fund—the workman's interest is that a large portion should go into the wages fund."—"After making certain payments, such as replacement of material,

[1] *Masters and Men*, p. 18.

maintenance of plant, ordinary interest upon capital, premium to cover risk, and that disputable item, cost of management, the balance of price then in the hands of the master is what should be divided between the wages fund and the profit fund. The crux of the problem is, what portion of this balance should be paid to each."

And again, on receiving a testimonial for his successful arbitration in a question of wages at Middlesborough in 1869, he said—"Price is the fund out of which both profit and wages are paid. This fund comes into the hands of the master for distribution."

Thus we may now take it to be an exploded fallacy that the wages fund is simply existing capital: it is the price of the product, subject to the deductions which have been pointed out, and the real question is to determine how the balance of price may be most equitably divided between masters and men; and if either party is dissatisfied with his share, what remedy is there for settling the point. But as this chapter has already extended to so great a length, and the various methods which have been proposed for adjusting the relative claims of Labour and Capital to share the common fund out of which both wages and profits are paid, will require much consideration, it will be more convenient to defer it to a future chapter, especially as such questions come more properly under the title of mixed Economics, as they involve a combination of Morals and Economics. The same observation is true respecting all Laws which regulate the hours of Labour; they involve questions of Moral duty as well as Economical effect, and will be more properly discussed hereafter.

67. In the preceding remarks we have only considered the exchangeable relations between labour and wages, or the money paid for it. Of course, the quantity of money paid for labour affords no indication of the well being or comfort of the labourers. The real reward or revenue of the labourers consists, not in the metal or paper pieces paid to them, but in what these signs or tokens will exchange for; in the lodging, food, clothing, and other necessaries or enjoyments the labourer can buy with them. Some writers, therefore, call the money wages, nominal wages, and the necessaries and comforts of life they will purchase, real wages. Again, Ricardo speaks of another kind of wages—*proportional* wages, namely the proportion of the produce of labour which the

labourer receives, and these various kinds of wages, natural wages, market wages, nominal wages, real wages, and proportional wages, are so mixed up together in his discussions, that it is frequently extremely difficult to disentangle these perplexed and complicated considerations.

No doubt it is very interesting and important to ascertain the relative position of the labouring classes, whether it ameliorates or deteriorates from century to century. But such an inquiry is not precisely Economics. Such comparisons can only be made by obtaining the most elaborate statistical tables of the Rate of Wages of all classes, and in all localities, and the prices of all sorts of commodities, and comparing them together. These, no doubt, are deeply interesting to the Statesman and the Economist; but they are Statistics, and not Economics. The relative values of money, wages, and commodities at different periods are statistical facts, and Economics only investigates the theory, or the causes why they change from time to time.

In the same way it is no part of Medical Science to know that there were all sorts of horrible diseases in the Middle Ages, black death, plague, sweating sickness, which are happily unknown now. That is Medical Statistics. It is the duty of Medical Science to investigate the *causes* of these frightful pests, and to point out the remedy for them if possible, not to register the facts.

Now an inquiry of the nature spoken of above would not be properly within the purpose of this work, which is intended to investigate the principles which determine changes of value. To be of any use it would require to be of very large extent. Smith has given some slight tables of the price of corn and a few statistics. But they are so meagre and imperfect as to be of no practical use. Most of the tables which have hitherto been used by Economists are now acknowledged to be entirely unreliable. If any persons wish to pursue such inquiries, they must consult Professor Thorold Rogers's laborious and extensive work, *The History of Agriculture and Prices*; for a later period Tooke's *History of Prices*; and for recent times, the volumes of the *Economist* will form an unequalled repertory of statistical information for all future inquirers. We may be quite certain that the exchangeable relations between Labour and Wages, and between Wages and Commodities, are each governed by the same general law of Economics. The real wages of the labourer will always

increase when the demand for his labour and the ratio of the quantity of the produce to labourers increases; and they will diminish when labourers increase faster than the demand for them, and the quantity of produce; and the only thing is to observe how this law acts in any particular cases.

68. We must now bring this long chapter to an end, not because its applications are exhausted, but rather, on the contrary, because they are so extensive and various, that to exhaust them would be far too long for a general elementary treatise such as this. Having set forth the general principles which can be shewn to apply to all cases, the further application of these general principles must be left to those who care to pursue the subject more minutely and exhaustively. We may simply remark that, as of everything else, Demand is the sole cause of the value of labour, and of its produce. It is Demand only which causes labour and its produce to be Wealth. In recent times far too much attention has been given to the Producer, and far too little to the Consumer. Working men are constantly in the habit of proclaiming themselves to be the creators of all Wealth. But working men are *not* the creators of all Wealth. Was it working men who created corn, or made it grow? Did working men create cattle and all sorts of flocks? Did working men ever create any material substance whatever? Did they create the stone of which palaces are built? Did working men create the great sciences which have done so much for mankind, and by which so much of their labour is directed? Did they create the land? Did they create the skill, the foresight, and the Credit, by means of which modern commerce is carried on? They did none of these things. They bring nothing but their labour to transform and transport the materials furnished by nature, to supply the wants of others. And whatever they may do, it is not their labour which constitutes a thing wealth, but the *demand* of the Consumer. The Producer and the Consumer are both indispensably necessary to each other; and it is only by their joint action that anything is wealth. Wealth, says Arthur Young most truly, consists in circulation and *consumption*. Of what use would it be for working men to build miles of palaces if nobody wanted to live in them? Or to grow corn and bake bread, if there were no consumers to eat it? Or to make furniture, clothes, or watches, if there were no one to buy

them? At every turn this truth meets us, that it is not the Labour of the producer which constitutes a thing Wealth, but the Demand of the Consumer.

Nothing can be more suicidal than the cry against rich men which so many wild Socialists and Communists have raised. Where would working men be without rich men? If a man has not wealth himself, but only his labour to sell, what is most to his advantage? Why, of course, that there should be as many rich men as possible to compete for his labour. If a man has nothing but his labour to sell, does he go to a multitude of paupers like himself, who cannot buy it, or does he seek a concourse of rich men who will compete for it? Nothing can be more fatal than the cry against Capital so often unthinkingly uttered. How could working men exist without capital? A capitalist is a man whose business it is to rack his brains to provide work for working men, and to give them their reward before he can get any for himself; and often, indeed, he gives them a reward and gets none for himself. If any one wishes to see the effect of a destruction of capital let him observe the consequences to working men of a great commercial crisis like that which has recently taken place in the United States, where an enormous amount of Credit, which served as wages for working men, has been annihilated. Working men can no more do without capital than capital can do without them; and it is for their interest that capital should increase and multiply as much as possible to compete for their labour. When working men complain of the tyranny of capital, and the low price of their labour, it is not the tyranny of capital which is their enemy, but the tyranny of their own excessive numbers. Their interest is to multiply their "tyrants" and diminish their own numbers. What they really want is more capitalists, more rich men, and fewer working men. However, we are happy to think that working men in this country are touched to a comparatively small extent with the insane phrenzy of the continental Socialists and Communists, whose object is to destroy all capital and rich men. Their struggle in the main is only to obtain what they consider a fair division of the fund which provides both wages and profits. We shall in a subsequent chapter have to consider the various methods proposed to attain that object.

CHAPTER XIV.

ON RIGHTS, OR INCORPOREAL WEALTH.

1. We now come to that part of Economics in which Economists have hitherto failed more completely than in any other, from their want of knowledge of the most elementary principles of the Law of Property. We have now to deal with the third species of Economic Quantities, Products, Services and RIGHTS; or as they may be otherwise symbolised by Money, Labour, and CREDIT.

The first modern Economists said that all exchanges are of Products against Products. This is evidently incomplete, because in the very rudest state of society men perform services and receive some remuneration for them.

Beccaria said that all exchanges are of products against products; products against services; and of services against services: and Bastiat sought to correct the first rude notions of the Physiocrates by saying that all exchanges are of labour against labour.

But such an idea of Economics, though somewhat in advance of the first, is only suitable to the lowest state of society like that of Australian savages. As soon as ever a certain degree of civilisation commences, a *third* species of Economic Quantities is created, namely, RIGHTS, abstract Rights not associated with any specific thing or service. And this species of Right, in a commercial country like England far exeeeds in magnitude the other two species of Economic Quantities.

With the first DEBT that was created among men, a new species of Property sprang into existence: and when this Property was made saleable, a new species of Wealth was created, which has produced greater effects on the fortunes of mankind than any other.

So few remains of Greek Law and jurisprudence have come down to us that we cannot say whether they recognised the existence of Incorporeal Property, or had any special name for it.

There are several divisions of Property in use among jurists, such as immoveable and moveable, or, as they are frequently

called, real and personal: but the one most suitable for Economics is that given in Roman Law[1]—"Moreover, some kinds of property (*res*) are corporeal, and others Incorporeal. Corporeal Property consists of those things which can by nature be touched, as land, a slave, clothes, gold, silver, and innumerable other things.

"Incorporeal Property is that which cannot be touched, such as those things which consist in a mere RIGHT, such as an inheritance, a usufruct, a usage, and obligations in whatever mode contracted. And it makes no difference that corporeal things are included in an inheritance, because also the fruits from land are corporeal: so also what is due to us on an obligation is usually corporeal; such as land, a slave, or money; but the Right of inheritance itself, the Right of enjoyment, and the RIGHT of the obligation, are Incorporeal."

Now, "*Res*" in Roman Law comprehends everything of whatever nature it may be, which can be the subject matter of a RIGHT.

And these Rights are repeatedly declared to be WEALTH in Roman Law, thus—

Digest, 50, 16, 23—"Under the name of wealth (*rei*) causes and Rights are included."

Digest, 50, 16, 19—"Rights of action are also properly included under 'goods' (*bonis*)."

Digest, 50, 16, 222—"Under the name of Wealth (*Pecuniæ*) not only ready money, but all Property (*res*), both immoveable and moveable, both corporeal and RIGHTS (*jura*) are included."

So Ulpian, Lib. 43 ad Edict.—"We are accustomed to buy and sell debts payable on a certain event, or on a certain day. For that is wealth (*res*) which may be bought and sold."

Thus saleable Rights of all kinds are expressly included under the terms "*Pecunia*," "*Res*," "*Bona*," in Roman Law. Though, as we shall shortly shew, there is an immensely greater variety of saleable Rights created under modern civilisation than existed in Roman Law.

So also the word *merx*, merchandise, included any object which could be transferred from the seller to the buyer, which was capable of being freely bought and sold. "It might be either immoveable or moveable, corporeal or incorporeal, existent or

[1] *Gaius*, *II.*, 12—14. *Just. Institut.*, *II.*, 2. *Dig.*, *I.*, 8.

non-existent, certain or uncertain, a horse, a *Right of action*, servitude, or thing to be acquired, or the acquisition whereof depends on chance."[1]

And the same is true in every system of Law. In French Law the words "*biens*" and "*choses*" include everything which can be the subject of a right, which can be bought and sold.

It is precisely the same in English Law. Saleable Rights of all kinds are expressly included under the words "goods and chattels" or "effects" in an Act of Parliament;[2] or in a will, unless there be words to negative such an inference;[3] and in the clause of "reputed ownership" in bankruptcy.[4]

When, therefore, it is clearly understood that a saleable Right —and we say saleable to distinguish it from a mere moral or titular right—is a commodity, merchandise, wealth, or an Economic Quantity, which may be valued, bought, and sold, precisely like so much land, or a house, clothes, corn, cattle, or money, the whole subject of modern commerce can be made simple and intelligible.

In fact, most of the difficulty has been created by the erroneous ideas of Value propagated by so many modern writers, that it is the Quantity of Labour employed in producing something: whereas when we firmly grasp the conception that the Value of a thing is *anything else*, of whatever nature, it will exchange for, the whole obscurity and confusion is cleared up. Because it is the price paid for the Right which is its value; just as the value of corn, clothes, or a watch, is the price paid for them: so if a Right will sell for £10, and so much corn, clothes, or a watch will also sell for £10, the value of all these things is equal.

We have already pointed out that the true meaning of the word Property is not a thing, but a Right to something, and it is invariably used in this sense by our older writers. Thus grand old Wycliffe says—"They made Property of ghostly goods, where no Property may be; and professed to have no Property in worldly goods, where alone Property is lawful."

1 *Colquhoun. A Summary of the Roman Civil Law*, § 1638.

2 *Slade* v. *Morley*, 4 Co. R., 92 b. *Ford's case*, 12 Co. R. 1. *Clayton's case*, Lytt. 86. *Ryal* v. *Rowles*, 1 Ves. sen., 348.

3 *Anon.*, 1 P. Wms., 267. *Campbell* v. *Prescott*, 15 Ves. 500. *Kendall* v. *Kendall*, 4 Russ. C.C., 360. *Parker* v. *Marchant*, 1 Y. & Coll. C.C., 290.

4 *Ryal* v. *Rowles*, 1 Ves. sen., 348. *Colville ex parte*, Mont. C.B., 110. *Belcher* v. *Campbell*, 8 Q. B. 1.

It has caused immense confusion, using the word Property sometimes to mean the goods, and sometimes the Right to goods. It would be just as rational to call goods "ownership" as to call them "property."

Once for all, we invariably use the word Property, not to mean goods, but the exclusive Right to use them: and when we exchange goods such as corn and wine, we exchange the Right to use them in any way we please. To create a Property is simply to create an exclusive Right; and when these Rights are made saleable, they are technically termed Wealth. And thus when we see that Rights can be created, sold or exchanged, and annihilated, we see that Wealth can be created and annihilated.

The distinguished French jurist, Ortolan, observes that jurisprudence has nothing to do with things, but only with RIGHTS to things. Thus when a person has damaged any goods belonging to another person, it is not for the actual damage done to the goods that an action lies; but for the injury done to the person: that is, for the infringement of his legal right (*injuria*) to the enjoyment and use of the goods. If the goods belong to no person there is no injury, and no right of action.

It is precisely the same in Economics: it has nothing to do with the material substances, but only with the *Rights* to them: and with the *exchanges* of these Rights. And the object of the Science of Economics is to investigate the laws which govern the proportions in which they will exchange for each other.

Neither to grow corn, nor to manufacture it, nor to eat it, is an Economic phenomenon; but only to exchange it. Neither is it an Economic phenomenon to present a gift to a man: nor to take away anything from him: but only to buy and sell with him.

And when this is clearly understood, that Property, or Wealth, is not the material solid substance, but only the Right to it, we find that the difficulty of the Physiocrates, who maintained that all wealth comes from the earth and must be material, because *Nothing can come from Nothing*, and man can create nothing, vanishes.

No one says that man can create a single particle of solid matter: but every one knows that man can create, transfer, and annihilate Rights to matter.

Let us imagine that Robinson Crusoe had found a help-meet for himself in his island: and a little family of Crusoes grew up.

Now, as the whole island belonged to Crusoe, this was his *dominion;* the whole Right centred in him. As long as his family were young they would live in common: each would help so far as he could in obtaining food and sustenance: one, perhaps, would plough the land: another would tend flocks and herds: another would take to hunting: another to fishing; according to the bent of their inclinations. They would naturally bring what they got into the common stock, and all share together each kind of produce. But as they grew up, Crusoe *père* would probably observe that their talents and dispositions were different, one would prefer agriculture: another pasture: another hunting: another the sea. He would probably perceive that it would conduce to the future harmony of his family if he were to divide his domain according to the natural bent of his sons' inclinations. He would appropriate the flat alluvial lands to the agriculturist: he would give the natural pasture to the one who preferred flocks and herds: he would give the mountainous parts to the huntsman: while the seaman would take the sea as his domain. Each would have the exclusive Right to the produce of his own industry: and instead of sharing all things in common, they would *exchange* their produce in such proportions as they might agree upon. As soon as this change took place, there was the creation of Property, or exclusive Rights to produce, and the society was at once changed from a Communistic or Socialistic state to an Economical state. Now, here Robinson did not create the material produce: but he created the exclusive Rights to it: and as it is these exclusive Rights which are technically termed Wealth, he thus created Wealth.

The doctrine of the Physiocrates that the earth is the sole source of wealth, and the difficulty they made in admitting Labour, and Credit to be wealth, is precisely that which has divided the Spiritualists and the Materialists for thousands of years. So far as we know, Kapila originated the Materialistic philosophy, and invented the dogma that *Nothing can come from Nothing,* to disprove the existence of a Deity. This dogma has been repeated by innumerable philosophers, Leucippus, Anaxagoras, Parmenides, Democritus, Epicurus, Lucretius, and scores of others.

But this dogma, which the Physiocrates so constantly used to prove that all wealth is material, concerns us not. It may be true, or it may not, for all that we care. We neither affirm it nor deny it: and when it confronts us, when we say that wealth may be

immaterial and incorporeal, we simply turn its flank by a very obvious strategic movement. We say that we are not concerned with any material thing at all, but only with RIGHTS to them. Some philosophers deny the existence of a Deity; other philosophers deny the existence of matter: but we venture to suppose that no sect of philosophers will ever have the hardihood to deny that men can create, sell or exchange, and annihilate RIGHTS.

Shades of Kapila, Leucippus, Anaxagoras, Democritus, Parmenides, Epicurus, Lucretius, Berkeley, Kant, Physical philosophers, Physiocrates, we salute you, and leave you to settle your dogmas and your quarrels among yourselves—they concern us not—we simply pass on our way, heedless of your perennial war of words. Gentle reader,

"Non ragionar di lor, ma guarda e passa."

We have now done for ever with these silly squabbles.

2. We will now shew that not only all Jurists declare these Rights to be wealth, but also all Economists since the Physiocrates.

Thus Smith, who begins by filling his readers' minds with the idea that all wealth is the "annual produce of land and labour," besides acknowledging that "natural and acquired abilities" are wealth and fixed capital, under the head of circulating Capital expressly enumerates Bank Notes, Bills, &c., which are mere Rights, or Credit.

He says that circulating Capital consists[1]—"*First*, of the money by means of which all the other three are circulated and distributed to their proper consumers."

He afterwards calls money the "great instrument of commerce," the "great wheel of circulation," which latter expression towards the end of the last century became common as the "circulating medium."

Now under the term money, he expressly includes "paper money," and says that circulation comes to be carried on by a new wheel.—"There are several different sorts of paper money; but the circulating notes of banks and bankers are the species which are best known, and which seem best adapted for the purpose."

It is to be observed that what Smith calls "paper money" we call "paper currency;" because money is restricted to that which a debtor can compel a creditor to take in payment of a debt—*i. e.*,

[1] *Wealth of Nations, B. II., ch.* 1.

legal tender. Paper money is inconvertible paper currency. But ordinary bank notes are paper currency, because they are subject to the same principle of transfer as money, *i. e.*, the property passes with the honest possession: and they are also "circulating medium," "the wheel of circulation," because the circulation of commodities is effected by their means exactly in the same way as by money.

Smith says[1]—"When the people of any particular country have such confidence in the fortune, probity, and prudence of a particular banker as to believe that he is always ready to pay upon demand such of his promissory notes as are likely to be at any time presented to him; these notes come to have the same currency as gold and silver money, from the confidence that such money can at any time be had for them.

"A particular banker lends among his customers his own promissory notes, to the extent, we shall suppose, of a hundred thousand pounds. As those notes serve all the purposes of money, his debtors pay him the same interest as if he had lent them so much money. This interest is the source of his gain. Though some of those notes are continually coming back upon him for payment, part of them continue to circulate for months and years together. Though he has generally in circulation, therefore, notes to the extent of a hundred thousand pounds, twenty thousand pounds in gold and silver may frequently be a sufficient provision for answering occasional demands. By this operation, therefore, twenty thousand pounds in gold and silver perform all the functions which a hundred thousand could otherwise have performed."

Hence as these notes, which are mere Credit, produce exactly the same profit to the banker as if they were gold, they are evidently Capital to him just as if they were gold: and as their effects on the produce and industry of the country are exactly the same as if they were gold, they are evidently Capital to the country, just as so much gold.

"Let us suppose, for example, that the whole circulating money of some particular country amounted at a particular time to one million sterling, that sum being then sufficient for circulating the whole annual produce of their land and labour. Let us suppose, too, that some time thereafter, different banks and bankers issued promissory notes payable to the bearer, to the extent of one

[1] *Wealth of Nations, B. II., ch. 2.*

million, reserving in their different coffers two hundred thousand pounds for answering occasional demands. There would remain, therefore, in circulation eight hundred thousand pounds in gold and silver, and a million of bank notes, or eighteen hundred thousand pounds of paper and money together." Thus we see that Smith places these Notes, mere abstract Rights, pure Credit, exactly on the same footing, and the same value, as so much gold and silver.

Smith sometimes supposes that Bank Notes are only issued to supersede existing specie. That no doubt is sometimes done; but we have shewn that it is a great error to suppose that that is always the case. Bank Notes may be multiplied on a given basis of bullion, where there was no specie before. If with an existing amount of specie of £100,000; £80,000 in specie may be withdrawn and £80,000 in paper substituted, leaving that £80,000 in specie free to be exported for the purposes of foreign trade, it is quite evident that on an existing basis of £20,000 in specie, a paper currency of £80,000 may be built up equally well, provided occupation can be found for it, as we have exemplified in Scotch banking; and, in fact, in English banking, Notes were *multiplied* on an existing basis of specie, and were not issued in substitution for it.

3. Smith goes on—"It is chiefly by discounting Bills of Exchange, that is, by advancing *money* upon them before they are due, that the greater part of banks and bankers issue their promissory notes. . . . . The banker who advances to the merchant whose bills he discounts, not gold and silver, but his own promissory notes, has the advantage of being able to discount *to a greater amount* by the whole value of his promissory notes which he finds by experience are commonly in circulation. He is thereby enabled to make his *clear gain of interest on so much a larger sum.*"

Here Smith clearly admits that Notes may be issued, not only in substitution for existing specie, but in *addition* to it, and consequently that is an increase of Capital.

And we may cite—"The banks when their customers apply to them for *money*, generally advance it to them in their own promissory notes. These the merchants pay away to the manufacturers for goods the manufacturers to farmers for materials and

provisions [and to their own workpeople for wages], the farmers to their landlords for rent, the landlords repay them to the merchants for the conveniences and luxuries with which they supply them, and the merchants again return them to the banks, in order to balance their cash accounts, or to replace what they may have borrowed of them: and thus almost the whole money business of the country is transacted by means of them." Thus we see that as Smith expressly includes under circulating Capital the *money* by which goods and commodities are circulated and distributed to their proper consumers, and he calls these promissory notes, money, and shews how they circulate commodities, he manifestly affirms that these Notes, or Credit, are circulating Capital.

These extracts are quite sufficient to prove what we wished to shew, that Smith clearly admits that abstract Rights are wealth, and that Credit is Capital.

Now, of course, these Rights, or Credit, are only a type of all saleable Rights; so that Smith, notwithstanding his supposed doctrine that all Wealth is the "produce of land and labour," expressly admits Incorporeal Property to be Wealth, and thus he is obliged to recognise the three species of wealth, Money, Labour, and Credit, exactly as had been done in ancient times.

4. J. B. Say recognises exactly the same three forms of wealth. He says[1]—"The exclusive possession which in the midst of a number of men, clearly distinguishes the property of one person from the property of another person, causes, in common usage, this sort of goods (*biens*) to be the only one to which the name of *wealth* is given. And for that reason are included in it . . . money, instruments of credit (*titres de créance*) and the public funds, &c." And he elsewhere says that the name of Wealth is applied to all property (*biens*) which have a value in exchange,[2] and also that the words include "*effets de commerce*," which are Bills of Exchange, and Notes of all kinds.

He also says[3]—"This is why immediately that this value resides in the objects employed in a productive operation, I call it a Capital, whatever be the form of the objects in which it resides," and—"These capital values may consist of the public funds, commercial paper, coffee, or any other merchandise."

[1] *Cours d'Economie Politique, Part I., ch.* 1.
[2] *Ibid. Considérations Générales.* [3] *Ibid., Part I., ch.* 8.

Hence Say expressly classes Credit under the title of wealth.

Afterwards, in speaking more particularly of Paper Currency, he says[1]—"It is this power of purchasing that I call its value: and experience shews that it is possible to give to Paper Currency this value, and a value even equal to that of the metal, which it replaces, without representing."

And afterwards[2]—"We can give a Note exactly the same value as a sum of money, in giving the bearer the right to demand the sum, in such a way as to relieve him of all anxiety as to its payment; it is thus that a Bank Note may circulate ten years preserving the value of a thousand francs, without being paid, only because the bearer believes he can have it paid at any moment he pleases. . . . You see that all the useful qualities of money can be found in a representative sign which has no value in itself [nothing has any value in itself], and draws from money itself all the advantages which it has."

He also says[3]—"Bills of exchange are obligations contracted to be paid at another time or another place.

"The right attached to this order (although its value is not demandable at the time and place), nevertheless, gives it a *Present Value* more or less great. Thus a bill for 100 francs payable at Paris after two months, can be negociated or sold for the price of 99 francs. So the present value of a bill on Marseilles for a similar time is perhaps 98 francs at Paris.

"Hence the bill, in virtue of its future value, has *Present Value*, and can be employed instead of money in every species of purchase, so that the greater part of the great transactions in commerce are effected by bills of exchange."

Again he says[4]—"If bank notes could completely replace specie it is evident that a bank of issue truly augments the sum of national wealth. . . . We must not, however, imagine that the value withdrawn from the amount of specie and added to the amount of capital merchandise is equal to the amount of notes in circulation. These only represent money when they are payable on demand, and for that purpose the bank is obliged to keep in its coffers, and therefore to withdraw from circulation, a certain sum of money. If, suppose, it issues one hundred millions of notes, it withdraws,

[1] *Cours d'Economie Politique, Part III., ch.* 16.

[2] *Ibid., Part III., ch.* 17. [3] *Traité, B. I., ch.* 30.

[4] *Cours, Part III., ch.* 17.

perhaps, 40 millions in specie, which it keeps to pay any notes that may be demanded. If, therefore, it adds 100 millions to the circulation and withdraws 40 millions, it is as if it adds only 60 millions.

"We now wish to know what class of society enjoys the use of this NEW CAPITAL."

After these extracts from Say, shewing as clearly as language can do, that he expressly classes Credit as Wealth and Capital, and that Bank Notes are an *increase* of circulating Capital, will it be believed that Say is the author of the silly sarcasm that those who say that Credit is Capital say that the same thing can be in two places at once!!

The cause of the blunder and the confusion is clear. In the extracts we have given above, Say considers the Right to be the Credit, and to be capable of circulating and producing all the effects of money, and therefore to be Capital, in the same way that money is.

In the other extract he considers the Credit to be the thing lent: and then he says, how can the same thing be in two places at once, and used by two people at once? Of course nobody says that the same thing can be in two places at once. For the Credit is not the *thing lent*, but the Right to demand payment, which is created in exchange for the thing lent: and this Right may be bought and sold, and perform all the functions of money, as Say himself explains.

Thus we see that Say's famous apothegm "that to say that Credit is Capital is to say that the same thing can be in two places at once," proceeds entirely from his own confused and contradictory notions of what Credit is.

But we have shewn that Say recognises the same three forms of wealth as the ancient writers and Smith.

5. We shall find exactly the same recognition of the three forms of wealth, and the same confusion and contradiction, in Mill.

Mill commences by saying that Wealth is anything which has purchasing power, which is the true definition, and in itself comprehends all the three species of wealth. We have already shewn in the preceding chapter that after beginning with this general and comprehensive definition, he afterwards restricts the term wealth to material wealth only, but side by side with this restriction he admits that "skill," "energy," "perseverance," and "acquired

capacities" are wealth,—a most flagrant contradiction, unless skill, energy, perseverance, and acquired capacities are material and extracted from the globe.

Then Mill says[1]—"For Credit, though it is not *productive* power, is *purchasing* power." . . "The credit which we are now called upon to consider, as a distinct purchasing power."

"The amount of purchasing power which a person can exercise is composed of all the money in his possession, or due to him [which is Credit], and of all his Credit."

"Credit, in short, has exactly the same purchasing power with money."

"Credit which is used to purchase commodities affects prices in the same manner as money. Money and Credit are thus exactly on a par in their effect on prices," and many other passages too numerous to cite.

We have thus shewn that Mill says that Wealth is *anything* which has purchasing power—that is the major premiss. He then says that Credit is purchasing power—that is the minor. Hence the inference necessarily is, that Credit is Wealth; and if any one can escape from this syllogism, Logic is moonshine.

Mill again says—"A third form in which Credit is employed as a substitute for currency is that of promissory notes."—"A fourth form of making Credit answer the purposes of money, by which, when carried far enough, money may be very completely superseded, consists in making payments by cheques"—"the banker's credit with the public at large coined into notes, as bullion is coined into pieces of money to make it portable and divisible, is so much purchasing power superadded."—"Since then Credit in the form of bank notes."

Thus Mill distinctly says that bank notes are Credit.

Then he says—"And an order, or note of hand, or bill payable at sight, for an ounce of gold, while the credit of the giver is unimpaired, is worth neither more nor less than the gold itself"—"there are other things, such as bank notes, bills of exchange, and cheques, which circulate as money and perform *all* the functions of it."

Thus we have seen that Mill says that Wealth is anything that has purchasing power; that credit is purchasing power; therefore that Credit is Wealth. He then calls Bank Notes, Cheques,

[1] *Principles of Political Economy, B. III., ch.* 11, § 3.

and Bills Credit, which he says may be of exactly the same value as money, and perform *all* the functions of money, and therefore may be used as Capital, among them.

But he says—"Although the *productive* funds of the country are not increased by credit."—"It is not a *productive* power in itself."—"Credit, though not a *productive* power, is purchasing power."

Hence Mill denies that Credit is productive. But under Capital he says[1]—"Money is no more synonymous with capital than it is with wealth. Money cannot in itself perform any part of the office of capital (?) since it can afford no assistance to production (?). To do this it must be exchanged for other things; and anything which is susceptible of being exchanged for other things is capable of contributing to production in the same degree."

Now here Mill admits that Bank Notes, or Credit, may contribute to production exactly in the same way that money does, because they can be exchanged exactly in the same way that money is.

Then in a subsequent chapter he says[2] speaking of the issue of notes—"They have the use of twenty millions of circulating medium which have cost them only the expense of an engraver's plate. If they employ this accession to their fortunes as PRODUCTIVE CAPITAL, the produce of the country is increased and the community benefitted, as much as by any other CAPITAL of equal amount."—"When paper currency is supplied, as in our own country, by bankers and companies, the amount is almost wholly turned into PRODUCTIVE CAPITAL."—"A banker's profession being that of a money lender (!) his issue of notes is a simple extension of his ordinary occupation. He lends the amount to farmers, manufacturers, or dealers, who employ it in their several businesses. So employed, it yields, like any other CAPITAL, wages of labour and profits of stock. The profit is shared between the banker, who receives interest, and a succession of borrowers, mostly for short periods, who, after paying the interest, gain a profit in addition, or a convenience equivalent to profit. The capital itself in the long run becomes entirely wages, and when replaced by the sale of the produce becomes wages again; thus affording a perpetual fund of the value of twenty millions for the maintenance of *productive* labour, and increasing the annual

[1] *Book I., ch.* 4, § 1. [2] *Book III., ch.* 22, § 2.

produce of the country by all that can be produced through the means of a CAPITAL of that value."—"Some extensions of credit, especially when taking place in the form of bank notes, or other instruments of exchange. The additional bank notes are, in ordinary course, first issued to producers or dealers, to be employed as CAPITAL."

Now was there ever a series of more flagrant self-contradictions than these passages from Mill, who sneers at the imbecility of those who think that Credit is Capital, and points out to them that Credit is only the *transfer of Capital!!?*

The cause of Mill's confusion and contradiction is now as clear as Say's. Say thought the Credit is the thing lent: Mill thinks that the Credit is the transfer of the capital. Both of these notions, however, are manifestly erroneous; and we hope that the foolish sarcasm of Say is now exterminated for ever from Economics: and that it is plainly understood that the Credit is the Right to the future payment, which may be bought and sold like any other commodity, and is merchandise, or a commodity itself. The only real difficulty in the question is to ascertain the due limits of Credit, and these we have fully investigated in a former chapter.

6. Transferable property, therefore, is of two distinct kinds; *First*, the Right to some definite material object, or service, which has actually come into the possession of the proprietor, such as lands, houses, money, goods of all sorts; *Secondly*, the Right to something which will only come into possession at some future time, either because it is not yet in existence, or because, though it may be in existence, it is in some one else's possession at the present time.

Thus if a man possesses land, or fruit trees, or flocks, and herds, he has the Right to the future produce of the land, the fruit trees, or the flocks and herds. But though the actual produce will only come into existence at a future time, the Right to it when it does come into existence is present, and may be bought and sold like any material commodity.

Or the thing itself may be in some one else's possession at the present time. Thus a Bill of Exchange is the Right to a future payment from a certain person. The money which will discharge the bill, supposing it to be discharged in money, which very few

bills ever are, in modern commerce, may not even be in the possession of the person bound to pay it; it may perform an indefinite number of exchanges before it pays the bill. But the bill itself, a mere abstract Right to demand money, may also be put into circulation, and also effect an indefinite number of exchanges before it is discharged. Hence during the currency of the bill, there are two Economic Quantities in circulation.

Or there may be a Right to receive an uncertain profit, as the shares in a commercial company, or the profits to be made by selling books or machines.

But both these kinds of Rights are equally Property, and are called by different names according to the thing to which the Right relates. There is landed Property, house Property, real Property, personal Property, literary Property, funded Property, &c. And each of these kinds of Property is merchandise, or a commodity; and may be as freely valued and sold as the other.

Hence a Right to a future product is an Economic Quantity, and a Commodity exactly in the same sense as the Right to a present product: because in either case Economics has nothing to do with anything but the Right; and one kind of Right may be as freely sold and exchanged as the other. It is exactly the same in Law. An injury may be done to, and an action will lie for damage done, to a Right on the future as well as an injury done to a Right to the present. And when this is clearly understood, modern commerce becomes quite simple: because it is nothing but the exchange of these Rights.

There is, however, this difference between these two classes of property. When persons exchange Corporeal Property, the things to which the Rights relate can be actually exchanged by visible manual delivery: whereas in Incorporeal Property this cannot be done. So many lambs actually born can be visibly and manually exchanged for so much corn actually reaped; but so many lambs to be born some months hence cannot be visibly exchanged for so much corn to be grown at some future time. So the Right to receive so much money at a future time cannot be actually transferred by manual delivery from one person to another. Accordingly, at Rome, when the transfer of a Credit, or Debt, was agreed upon, it was necessary for the Creditor, the Debtor, and the Assignee to meet together, and, by the consent of the parties, the Right of action was transferred from the original

Creditor to the Assignee; and by this means the Creditor was discharged from his debt to the Assignee; and the debtor became bound to the new Creditor. This difficulty, however, is very easily surmounted. The Right may be recorded on paper or some other material; and this material may be transferred and exchanged for other rights; and thus this Right becomes strictly capable of being transferred by manual delivery: and thus Incorporeal Property becomes as visibly transferable as Corporeal Property.

7. Now when this Right is recorded on some material such as paper, the paper is termed an "Instrument," and it is proper to observe that in this case the word "Instrument" bears a strictly technical legal meaning, which is often overlooked.

The word *Instrument* has two meanings, which are often not distinguished. Sometimes it means a tool, or means, or implement, by which something is effected. Thus Smith speaks of money as "the great *instrument* of exchange," or "*instrument* of commerce." But also Bills and Notes are often spoken of as "Instruments of Debt," or "Instruments of Credit."

Now it must be carefully observed that in the expressions "*instrument* of exchange" and *instruments* of credit," the word *instrument* has two distinct meanings which have no connection with each other.

In "Instruments of Exchange" it signifies the means by which circulation or exchange is effected. In the term "Instrument of Credit" it means the record or document of the debt.

In Roman Law, the word *Instrumentum* means any evidence, whether oral or written, by which the Court or judge is instructed as to the merits of the case, or informed of a fact. In modern times, however, it is restricted to written evidence; and thus is exactly equivalent to the word *document*, which is any writing which teaches or informs the Court of a fact. It means simply a written record.

Thus Suetonius speaks of the *Instrumenta Imperii*, the written records of the Empire: and Quintilian of the *Instrumenta litis*, the papers or documents relating to a lawsuit: and Tertullian calls the Christian Scriptures[1] the *Novum Instrumentum*, or the *Novum Testamentum*, the new record.

[1] *Adv. Prax.*, 15, 20: *adv. Marc.*, *IV.*, 1.

This meaning is common in English; thus, out of numerous instances, we may quote Hallam[1]—"is abundantly manifest by *instruments* of both the kings"—"by mutual *instruments* executed at Calais"—"by the language of some English *instruments*." Thus in these cases the word instrument means a document, or a record.

Hence an "Instrument of Credit" means any written evidence of a debt, such as a Bill or Note, or a Deposit in a banker's book. And in Courts of Law and legal treatises these documents, are invariably termed instruments. Though this is known to every lawyer, it is often overlooked by literary writers on Economics.

Many persons, however, feel a difficulty in admitting such things as Bank Notes and Bills of Exchange to be Wealth, seeing that they are nothing but so many pieces of paper. It is to be observed, however, that it is not exactly the paper document which is wealth: that is only the evidence, or the record, of the Right: it is the Right which is wealth: and it subsists, and can be exchanged, quite independently of any paper: and even if the paper be destroyed, the Right is not destroyed: it may be written on a fresh piece of paper. So many persons are somewhat startled at calling so many figures in a banker's book, wealth. But these figures are merely the evidence of the Rights which exist in the persons of the customers of the banker: and they may be put into circulation by means of a cheque. These Deposits, therefore, or Credits in bankers' books, are in real effect, so many bank notes, and if one be admitted to be wealth, the other must be so too. They are each of them nothing but transferable Rights.

8. We have now to investigate the different forms of Incorporeal Property.

This commodity, then, Incorporeal Property, has exactly the same varieties as Corporeal Property. Some of it is immoveable, some moveable: or as it might by analogy be called real and personal: moreover some Incorporeal Property is as truly the produce of labour as any Corporeal Property: other large masses of Incorporeal Property are not the result of labour, just as there is Corporeal Property which is not the result of labour: and also vast masses of Incorporeal Property are the subject of exports and

[1] *Middle Ages, ch.* 1, *part* 2.

imports, and affect the exchanges exactly in the same way as any other merchandise; but as these masses of Property do not pass through the Custom House, but through the Post Office, it is quite impossible to have any record of the quantities which are exported or imported: and consequently the subject of the exchanges is a hopeless puzzle to any persons who look only to the official returns of merchandise published by the Board of Trade: for they cannot contain any record of the various mercantile securities, and bonds, or obligations of the Government, or public companies, which are transmitted from country to country, and which affect the exchanges exactly in the same way as so much merchandise.

9. But Incorporeal Property itself is of two kinds, each of them comprehending many varieties, and enormous masses of property—

I. Where the Right of one person to demand a future payment is also connected with the Duty of some one else to make that payment. The Right and the Duty constitute an *Obligation* or *Nexum*. This species of Property may be called Rights of Obligation. It is also called an Annuity; which is the Right to demand a series of payments from some person.

It must be carefully observed that an Annuity is not the series of payments actually made, but only the Right to demand them; and is Property quite separate from the sums actually paid. And this series may consist of any number from one to infinity, or any intermediate number.

This species of Incorporeal Property includes Credit, which is the lowest form of an annuity, being usually the Right to a single future payment; Rents of houses, farms, Copyrights, Patents, Mines, &c., which are usually a limited series of payments; up to Property in Land, the Funds, Tithes, &c., which are the Rights to receive a series of payments for ever.

II. Where the Right only exists to receive some uncertain profit; but no certain person is bound to make that payment; and there is only the expectation that some one will. This is called the *emptio spei*, or the *emptio rei speratæ*, in Roman Law: this species of Property may be called Rights of Expectation.

To this class of Incorporeal Property belong Shares in Commercial Companies, Copyrights, Patents, the Goodwill of a

business, the Practice of a professional man, Tolls, Ferries, Fisheries, &c.

In modern times Incorporeal Property includes by far the largest amount of existing Property.

On Rights *of* Obligation.

10. The doctrine of Annuities is a curious commentary upon the arguments of Aristotle, Dante and the Mediæval theologians to shew that interest for money is unnatural and abominable. The theory of annuities entirely depends upon the principle that money naturally produces interest: and that interest also produces interest, an idea that drove Plutarch wild.

An Annuity, as said above, is the Right to a series of payments from whatever source arising: and the doctrine of Annuities rests entirely on the principle that each of these future payments has a Present Value, and that the Right to all or any number of them may be bought and sold like any article of commerce.

The Present Value of an Annuity is, therefore, the sum of the series of the Present Values of all the future payments. Now let us take the case of a perpetual annuity, or the right to receive a series of payments at definite intervals for ever. If money bore no interest, it is clear that the value of such future payment would be exactly equal to the payment itself. Consequently the Present Value of such an Annuity would be the same as the aggregate of the sums to be paid for ever. That is, to purchase such an annuity it would be necessary to pay down an infinite sum of money. A consequence which is manifestly absurd. Hence such a mode of calculating the value of an annuity is evidently erroneous.

Again, suppose that simple interest is charged: then each future payment is diminished by a small definite sum of uniform amount. And it is evident that to buy an annuity on such a principle would involve exactly the same absurdity as in the former case. That is, to secure a finite annual payment, we should have to pay down an infinite sum. And this shews that this mode of calculation is also erroneous.

But if we suppose that compound interest is charged, we shall find that each term of the series will progressively and rapidly diminish. A larger quantity will have to be subtracted from each term in succession, according as the payment is more distant. We

shall thus obtain a series of quantities in geometrical progression, the common difference being a fraction: and by the laws of Algebra, we know that such a series, even though infinite, has a finite limit. Each term to be added is smaller than the preceding one; until they at last diminish to 0. And that finite limit is the Present Value of the infinite annuity.

Hence we see that the Present Value of an Annuity must always be calculated at compound interest to obtain a rational result. The Present Value of each term, or future payment, is such a sum as improved at compound interest at a given rate, would amount to the sum in the given time. And the Present Value of the whole annuity is the sum of a series of the Present Values of each term.

That compound interest is natural and proper is clear, because if a sum of money produces interest, it makes no difference whether it be called capital or interest; and as soon as interest has accrued from the capital, that interest as naturally produces interest as the capital did.

We also observe that if the absurd doctrines of so many philosophers and divines had been followed in practice it would have been impossible to have bought landed property; but nature herself refutes their folly: because if a seed-corn be planted in the ground it naturally multiplies twenty, thirty, forty fold; and consequently the value of the produce must be just so many times more valuable than the parent seed: and so if a man lends another money to purchase the seed-corn, he is fairly and equitably entitled to receive a share of the profit made by the use of his money.

We have already observed that all "loans" of money are in reality exchanges; the property in the money is transferred to the "borrower" and in exchange for it the lender receives the Right to demand an equal sum, with or without interest, as the case may be, at a future time. Hence they were called *mutua* in Roman Law. The etymology of the word given in the Pandects (*ex meo tuum fit*) is disallowed by modern Latin scholars. Mommsen says that *mutuus* comes from *mutare*, like *dividuus* from *divido;* and *deciduus* from *decido*. However that may be, either etymology exactly expresses the fact, that there is an exchange of Properties. Ortolan justly says that the Right to demand repayment is the Price of the money. Now the Price need not be demandable in

one sum; it may be a series of sums, either payable for ever, or for a limited time. Then we have

£100 = a perpetual annuity of £3; or

£100 = an annuity of £10 for a certain number of years.

And as these quantities are equal to each other, a person may either pay down a capital sum to buy an annuity; or pay an annuity to buy a capital sum payable either at a definite time or on a certain event; or only at an infinite distance of time, *i. e.*, never; or a perpetual loan.

We also observe that in Economics the symbol 0 denotes the Present Value of a sum of money that will only be paid at an infinite distance of time; and as the Present Value of any sum whatever, however large or however small, paid at an infinite distance of time, is exactly the same, *i. e.*, 0, it shews that in Economics, as in every other branch of Physical Science, one 0 may be any number of times greater than another 0, which sometimes puzzles juvenile mathematicians.

11. We must now shortly consider the different varieties of Property which fall under the class of Annuities.

I. *The lowest form of an Annuity, i. e., the Right to a single future payment.*

This comprehends the whole of Commercial and Banking Credit; which is the Right to a single future payment. These Rights, under the form of Bills of exchange, Bank Notes, Deposits in Banks, and ordinary Debts, form an enormous mass of Exchangeable Property, much larger than any other single species of Property. There is no difference in principle between discounting a Bill of Exchange and buying a landed estate: to discount a bill is to buy the Right to a single future payment; to buy a landed estate is to discount an infinite series of future payments. It has been estimated that one form of this property alone, namely, deposits in Banks in England, amounts to about £800,000,000; in Commercial Bills probably there is at least £500,000,000; and if we include all other forms of Credit, there is probably at least £2,000,000,000 of Property existing at the present time in this country: and this is Property which may be bought and sold, just as much as so much money, or corn, or timber. And is this Property the "annual produce of land and labour"? or is it "extracted from the materials of the globe"?

It may be as well to remind the reader that though the Right to demand is called the Credit, and in strictness the Duty to pay ought to be exclusively called the Debt, yet it most unfortunately happens that this Right is also called a Debt. And this may sometimes lead to confusion unless it be carefully observed whether the context shews that it means the Right or the Duty.

Thus Mr. Williams says[1]—"Within the class of *choses-in-action* was comprised a Right of growing importance, namely, that of suing for money due, which Right is all that is called a Debt."—"We have seen that a Debt was anciently considered as a mere Right to bring an action against the Debtor."[2]—"When a Debt or demand is equitable only"—"Debts being formerly considered as mere Rights of action." So the Act 46 Geo. III., c. 135, s. 3, enacts that one "Debt or demand may be set off against another." So, as may be seen in almost any daily paper, the executors of deceased persons advertise for any persons who have Debts, claims, or demands against the estate of the deceased person to give in a statement of them.

But, on the other hand, Mr. Williams also says[3]—"Every person who borrows money upon mortgage or not, incurs a *Debt*, or personal obligation to repay it out of whatever means he may possess."

Now when we have said in many places that Debts are Wealth, we mean, of course, Debts in the sense of exchangeable Rights, or Credits, which may be bought and sold.

II. *An Annuity for a limited series of terms, but exceeding one.*

This variety is much the most complicated; and includes a great number of sub-varieties, the calculation of whose value involves a considerable portion of the Theory of Probabilities. It includes the theory of the value of leases, fines on the renewal of leases, estates in remainder or reversion, vested and contingent, and life and survivorship annuities of all sorts. To enter into a full detail of the methods requisite to find the value of all these several annuities would require an immense amount of mathematical detail, which is wholly beyond the purpose of this work, and for which we must refer to the standard treatises on these subjects. All we can do here is to sketch very briefly the different classes

[1] *Principles of the Law of Personal Property*, p. 4. [2] *Ibid.*, p. 106.
[3] *Principles of the Law of Real Property*, p. 304.

that may be formed; and the species of property which is included in them. We may have then—

1. *A series to commence immediately and to terminate at a given time.*

(a.) *And of this the termination may be certain.*

Under this form are included all leases for a certain number of years, as usually of farms and houses; and all annuities for a fixed number of years; a form in which public debts are sometimes contracted. In either of these cases the capital is advanced, and in exchange for it the right of receiving a series of payments is received, which is the annuity. In the case of the house or the farm, the use of either of them is granted for a certain number of years; and an annuity received in exchange for its use, and at the end of the term, the house or the farm are restored to their owner: in the case of terminable annuities, the interest is paid every year together with a certain sum to replace the capital by instalments; so that at the end of the term, the whole capital is restored.

(b.) *Or the termination may be uncertain.*

Under this form are all life annuities commencing immediately.

(b. 1.) *And this termination may depend upon a single uncertain event; or* (b. 2) *upon several uncertain events.*

Thus an annuity may be granted to continue during the life of a single person: or during the life of the survivor of several persons.

2. *A series to begin at a future time and to continue a limited number of years.*

(a.) *Of this form the commencement and termination may both be certain and definite.*

Of this the fine paid for the renewal of an unexpired lease is an example.

(a 1.) *Or the commencement may be certain and definite and the end certain but indefinite.*

Thus an estate may be granted to A and his heirs for ten years; and then to B for life.

Or A may purchase an annuity for life, to commence at the end of a given term.

(a 2.) *Or the commencement may be certain and definite; but the end uncertain and indefinite.*

Thus an estate may be granted to A for 10 years, and then to B

until some contingent event happens, as, for instance, until he marries; and then to C.

Or a husband may bequeath an estate to his widow so long as she remains unmarried.

(a 3.) *Or the commencement may be certain but indefinite, and the end certain and definite.*

Thus an annuity for seventy years may be granted to B and his heirs, to commence on the death of A.

(a 4.) *Or the commencement may be uncertain and indefinite, and the termination certain and definite.*

Thus an estate or an annuity for a term of years may be settled on B, contingent on A marrying, or having a son.

(a 5.) *Or the commencement may be uncertain and indefinite, and the termination certain but indefinite.*

Thus a grant may be made to thirty different living persons in succession, separately, for their lives.

Or a survivorship annuity may be effected by a husband in favour of his wife.

(a 6.) *Or the commencement and termination may both be uncertain and indefinite.*

Thus an estate may be granted to A until some contingency, such as marriage, bankruptcy, birth of a son, succeeding to another estate; then to B on similar contingencies; then to C, and so on.

3. *A series to commence at a future period and to continue for ever.*

(a.) *And of this the commencement may be certain and definite.*

Thus an estate may be sold to B, subject to a lease to A.

(b.) *Or the commencement may be certain but indefinite.*

Thus an estate may be settled on B for life, with remainder to B in fee.

(c.) *Or the commencement may be uncertain and indefinite.*

Thus an estate may be settled on A and his heirs, whom failing, on B and his heirs.

Or an estate may be granted to A until he be bankrupt, or innumerable other contingencies, and then to B and his heirs.

To this form belongs the whole theory of estates in remainder or reversion, vested or contingent, executory interests, springing or shifting uses, and executory devises, a subject of immense importance.

III. *The largest form of an Annuity, i. e., a series of future payments for ever.*

This comprehends the whole theory of the value of estates in fee simple, and that portion of the public funds which consists of perpetual annuities. To purchase an estate in fee simple is merely to discount a series of future payments for ever, as already explained, and the same is obviously true of buying into the Funds.

On the Nature of the FUNDS.

12. The nature of the Funds has been a source of so much misconception among writers that we must enlarge somewhat upon them.

Suppose that a man possessed a million of money in the funds, as is said, every one would say that he was a wealthy man, and these funds would be called capital to him, because they would produce him an income of £30,000 a year.

If this be allowed, it would appear to follow that the Funds are Wealth and Capital. Yet many persons would think that any one who said so had taken leave of his senses. This disagreement among writers only shews that they have not thoroughly investigated the subject. And to understand the subject properly requires an investigation of the fundamental conceptions and nature of Economics.

In the first place—What are the Funds?

When a Government wants to raise a large sum of money at once to meet some great public emergency, such as a famine, a war, or to construct some great public work, such as a railway, canal, or anything else, it borrows a capital sum of money, and in exchange for the capital sum it agrees to pay a fixed annuity for ever. Now the Right to demand this perpetual annuity is called a Rent; just as the Right to receive an annuity in exchange for the use of lands or houses is called a Rent. This annuity was called a Rent formerly in English, but the name has been generally discontinued: it is, however, still the usual name in French: the French funds are called *Rentes*. The capital sum is said to be *funded, i. e.*, fixed, because the Government does not bind itself to repay the capital, but only the annual rent. If the annuitant wishes to get back his capital sum he must sell his annuity to some one else. So far as regards the annuitant, there-

fore, it is exactly the same thing to him as if he had bought an estate in land. Now the nature of this property has been a sore puzzle to many Economists: and some have denied that the incomes of the fundholders are to be reckoned in the general income of the country.

Mill says[1]—"This leads to an important distinction in the meaning of the word Wealth, as applied to the possessions of the individual, and to those of a nation or of mankind. In the wealth of mankind nothing is included which does not of itself answer some purpose of use or pleasure (?) To an individual, anything is wealth which, though useless in itself, enables him to claim from others a part of their stock of things, useful or pleasant. Take, for instance, a mortgage of a thousand pounds on a landed estate. This is wealth to the person to whom it brings in a revenue, and who could perhaps sell it in the market for the full amount of the debt. But it is not wealth to the country; if the engagement were annulled the country would be neither poorer nor richer. The mortgagee would have lost a thousand pounds and the owner of the land would have gained it. Speaking nationally, the mortgage was not itself wealth, but merely gave A a claim to a portion of the wealth of B. It was wealth to A, and wealth which he could transfer to a third person; but what he so transferred was in fact a joint ownership, to the extent of a thousand pounds, in the land of which B was nominally the sole proprietor. The position of fundholders, or owners of the public debt of a country, is similar. *They are mortgagees on the general wealth of the country.* The cancelling of the debt would be no destruction of wealth, but a transfer of it: a wrongful abstraction of wealth from certain members of the community, for the profit of the Government, or of the taxpayers. *Funded property, therefore, cannot be counted as part of the national wealth.* This is not always borne in mind by the dealers in statistical calculations. For example, in estimates of the gross income of the country, founded on the proceeds of the income tax, incomes derived from the Funds are not always excluded: though the taxpayers are assessed on their whole nominal income, without being permitted to deduct from it the portion levied from them in taxation to form the income of the fundholder. In the calculation, therefore, one portion of the general income of the country is counted twice over, and the

[1] *Preliminary Remarks.*

aggregate amount made to appear greater than it is by almost thirty millions. A country, however, may include in its wealth all stock held by its citizens in the funds of foreign countries, and other debts due to them from abroad. But even this is only wealth to them by being a part ownership in wealth held by others. It forms no part of the collective wealth of the human race. It is an element in the distribution, but not in the composition, of the general wealth."

13. It would be impossible for any passage to contain a greater series of misconceptions and errors than the preceding paragraphs: and as they relate to a subject of great importance, and involve many of the fundamental conceptions of Economics, we must examine them at some length.

1. The first ambiguity arises from the use of the term "National Wealth." Mill allows that the funds are wealth to the owners of them; but he says they are not part of the *national* wealth. Now the ambiguity arises in the use of the word *national*. Now when we say that the word Wealth means nothing but exchangeable property, *national* wealth can only mean that property which belongs to the nation in its corporate capacity, such as public lands, public forests, dockyards, the navy, and so on; things which do not belong to any private individual. No one could properly say that property which belongs to individuals is national wealth. My money belongs to me and not to the nation. The funded debt is the right, or property, residing in certain individuals to demand certain payments from the nation. Now a man's duty to pay a certain sum of money at a given time is no part of his wealth; but yet the right to receive it is the property of his creditor, which may be bought and sold; and therefore, by our definition, it is simply wealth, or an exchangeable quantity, until it is paid off, when it ceases to exist, like anything else which is destroyed. In a similar way the national duty to pay certain sums of money is no part of the national wealth; but yet the Rights to demand these payments are exchangeable quantities; they may be bought and sold; therefore they are simply wealth; precisely in the same sense that Bills of Exchange and Bank Notes are. The funds are certain Rights created by the nation in favour of certain individuals who have done services to the nation: and they are exactly similar to a debt created by an

individual in exchange for services. Now we have several times distinctly explained that a debt is always created by an exchange, and that a duty to pay a sum of money at a future time is no diminution of a man's present property. But yet the Right to demand the money may be bought and sold, and therefore it is wealth, by the unanimous declaration of all lawyers and Economists. When the debt is paid off it is another exchange. So, although the nation has engaged to make a series of payments in future, that is no diminution of its present property; but, nevertheless, the Rights to these future payments may be bought and sold. When we say, therefore, that the funds are wealth, it means nothing more than this—that they are exchangeable property—they may be bought and sold. There is no assertion made that they are *national* wealth. What may be called *national* wealth, however, is the belief in its probity and capacity of fulfilling its engagements, which enables it to purchase this money with its promise to pay a series of sums in future. This is its "purchasing power"; just in the same way as a merchant's credit is purchasing power to him; and hence as Mill himself defines wealth to be "everything which has purchasing power"; this credit is wealth equally to the merchant and to the nation.

2. Mill has completely mistaken the nature of the funds: he compares them to a mortgage deed. This is a fundamental misconception of the nature of the funds. What is a mortgage deed? When a man wants to borrow money on the security of land, he executes a deed transferring the property in the land itself to the lender: a mortgage deed, therefore, is nothing but a title deed to land: and, of course, no one says that the title deeds to a piece of land are separate property from the land itself. A mortgage deed, therefore, belongs to the same class of documents, or instruments, as Bills of Lading, Dock Warrants, Invoices, and other titles to specific things. We have carefully pointed out the fundamental distinction between these kinds of instruments, and instruments of credit.[1] Mortgages, Invoices, Bills of Lading, and Dock Warrants always describe the specific land or goods to which they are attached: they do not form any property separate from them: but Credit is a mere abstract Right to demand money; absolutely separate from any specific money, by the very nature of the thing. Now the funds are not a mortgage deed, but are simple credit.

[1] *Chap. VII.*, § 1.

Mill says that the fundholders are mortgagees on the general wealth of the country. If so, where are the mortgage deeds? Where are the deeds enumerating and cataloguing the general wealth of the country and conveying it to the fundholders? The fact is that Mill's idea is a complete delusion, though a very common one. Suppose a merchant has a house valued at £1,000; and suppose he is making an income of £1,000 a year in his business; and in the course of his business he accepts a bill for £100. Then, according to the doctrine of Mill and many others, by accepting a bill for £100, he has thereby executed a mortgage on his house! It is evident that this is a great delusion. When he accepts the bill of £100, it is evident he expects and means to pay it out of the *future profits* of his business. Hence the bill is not a mortgage on his house; but a charge upon his income. It is exactly the same with the funds; they are not a mortgage upon the existing property of the nation; they are a charge upon its future income.

This fallacy appears more conspicuously in another writer who gained a prize of £200 put at the disposal of the Society of Arts for the best essay on the mode of liquidating the National Debt. Mr. Capps says[1]—"There are two antagonistic and conflicting fallacies respecting the National Debt, which are very prevalent. The first is that funded property forms as much a portion of the wealth of the country, and is therefore to be reckoned among its assets, as lands, houses, or any other description of tangible property. The second, which is precisely the opposite of the former, is, that the debt is a subtraction, or deduction, from the wealth of the country; that the country is so much the poorer for it. Neither the one nor the other is correct; for the truth is that the country, with the trifling exception, which we shall hereafter name, is neither the richer nor the poorer for the existence of the debt, and that, consequently, both the opinions we have mentioned as being prevalent, are erroneous; which we shall now proceed to shew.

"With regard to the first—we have seen estimates made of the total wealth of the country, in which, after the enumeration, as a portion of the wealth of the nation, of lands, houses, raw materials, and manufactured products of all descriptions, there has been an item inserted of 'Funded Property,' which has been

[1] *The National Debt financially considered*, p. 86.

considered as of itself, an actual property, separate from, and an addition to, all other wealth. Now the debt, or the funds, though a property to the parties who hold them, are not so to the nation as a whole; *for they are only a mortgage upon the rest of the property of the country*, and by just so much as they are the property of the holders, they are an incumbrance, and a diminution of the value of the things so mortgaged, or incumbered.

"It is precisely a parallel case to the following:—A is worth £10,000 in the shape of an estate of that value. B is worth £5,000 in money. A mortgages his estate to B for £5,000, and spends the money unproductively. Let now a valuation be made of the property of A and B jointly, and we shall find that the amount of their united wealth is just the value of the estate, and nothing more. The estate is worth £10,000, £5,000 of which belong to B as mortgagee, and £5,000, the value of the equity of redemption, to A as mortgagor. The mortgage in no way adds to the value of the estate, and though it is a property to B, as mortgagee, it is to the same extent a diminution to A of the value of the estate.

"It is the same with the National Debt. *The whole country and its productions are mortgaged to the fundholder, to the extent of about one-seventh* of their value: and though such funds form a property to the holders of them, they are only so in the character of a mortgage, which reduces the value of the property mortgaged to its proprietors by just the amount of the mortgage. In taking, therefore, any account, or making any valuation, of the total wealth of the country, funded property must not be put down as an item, unless you make a corresponding deduction, on the other hand, from the value of the property of which it forms a mortgage."

Now here we have Mill's fallacy stated at greater length; and we again say that a mortgage is the name of a deed of conveyance of property. It is a deed of sale of some special property, with the right of repurchase, upon paying off the debt; and the mortgagee becomes the actual owner of the property. Now when were the fundholders ever put by a formal deed of conveyance into possession of the country or its productions? Let us see the Act of Parliament that did so. Until the deed of conveyance which gave over the country and its productions to the fundholders can be produced, it is clear that the funds are *not* similar to a mort-

gage on the property of the country. No one ever pretended that such a thing ever took place. The property in the country and its productions remains with their owners, and was never given to the fundholders. Hence the funds are not a mortgage on the property of the country.

Mr. Capps values the wealth of the country at £6,000,000,000. Where does he get this value from, and what is included in it? At all events, taking this value, he says that the National Debt is about one-seventh of the wealth of the country.

But what is the *Wealth* of of the country?

Smith and nearly every Economist of name since his day, have all maintained that the natural and acquired abilities of all the members of society are part of the *wealth* of the county. They all admit that the expense of education is fixed capital, and to be counted in the wealth of the country. Are these included in Mr. Capps's estimate of the wealth of the country? We will venture to say they are not. Moreover we surmise that that gigantic mass of property called Incorporeal Property, of which we are treating in this chapter is not included in his estimate. What then is its worth?

Now when Mr. Capps says that the National Debt is about one-seventh of the wealth of the country, we must manifestly know what he includes under "wealth." When he says that it is a mortgage on this wealth, we must clearly know what is mortgaged. We entirely deny that the National Debt is a mortgage on the property of the country; we say that it is a charge upon the *income* of the people, which is a totally distinct thing.

The importance of this distinction in comparing the weight of the National Debt to the *wealth* of the country is manifest when we consider that the payment of the interest of the debt is not only a charge upon persons who have material property; but a charge upon the industry of persons who have not material property. The industry of all the professions is just as much pledged for the payment of the dividends as the incomes of those who have real estate. Intellectual capital is just as much pledged as material capital; a consideration of the greatest importance, when we consider the weight of the debt, and the proposed means of paying it off; as well as the plan of raising all the charges of the year by taxation in the year.

Some persons propose that the debt should be extinguished

by compelling every one who has property to give up so much of it. But how are we to compel those whose whole property consists in their abilities, to give up a part of it? No doubt it is possible to confiscate material property. If a man has a hundred acres of land, or a thousand pounds, the State may take away ten acres of land, or a hundred pounds of his money, one-tenth of his capital; but how is the State to take away one-tenth part of his intellectual capital? A great lawyer makes, perhaps, £10,000 a year. While he does so, his talents are as much capital to him as an estate in land of £10,000 a year to its owner. But how is the State to get hold of one-tenth of his capital? Is it to take an axe and chop off a bit of his head? It is perfectly clear that there is no possible method of taxing intellectual capital but by taxing its profits, or income. Now the industry of every lawyer, and every other professional man, and, in fact, of every labouring man, is as much pledged for the payment of the dividends as the incomes of men of real estate.

We have now to consider what is the real weight of the National Debt in the country. Mr. Capps says that in 1857 the sum of £6,000,000,000 may be thought a moderate and fair estimate of the national wealth. The total debt he estimates at 800 millions, from which it appears that the debt would be almost one-seventh of the property.

Now all such estimates of the wealth of the country are mere delusions and snares. No Government inquiry, much less any single writer, ever could have any valuation of the wealth of the country which would be of service in a scientific point of view. We will be bound to say that in this estimate all intellectual capital and incorporeal estate is wholly neglected, which all contributes to the payment of the dividends.

It is perfectly manifest that the true way of estimating the weight of the debt is to compare the interest payable for the debt with the general income of the people of the country. The nation is bound to pay about 30 millions a year out of its income to the fundholders. What proportion then does that sum bear to the income out of which it is paid? That is clearly the true weight of the debt.

Mr. Capps says that in 1857 the income of the country might be taken at between 5 and 6 hundred millions. Adopting this estimate for the sake of argument, it is quite clear that the weight

of the debt is as 30 to 600, or one-twentieth part. As a matter of fact, however, we believe this estimate of the income of the country to be greatly underestimated; and that even at that time it was much nearer 1,000 millions than 600 millions; and this would make the debt only about one thirty-third part of the income of the country. Since then, the debt itself has diminished, and the income of the people has greatly increased, so that the comparative weight of the debt has considerably diminished; probably at the present time it does not amount to the fortieth part of the income of the country.

3. Mill then says that "the cancelling of the debt would be no destruction of wealth, but a transfer of it, a wrongful transfer of it from certain members of the community for the profit of the Government, or of the taxpayers. Funded property, *therefore*, cannot be counted as part of the national wealth!! This seems to be a most extraordinary conclusion. A *transfer* of wealth, in no case that we can imagine is the *destruction* of it. But Mill says, that because the transfer of it is not the *destruction* of it, it is not to be counted as part of the national wealth. A highwayman knocks down a traveller and robs him of his watch and his money: now this is only the *transfer* of the watch and the money; it is not a *destruction* of them: THEREFORE the money and the watch are no part of the national wealth! A servant robs his master: that is only a *transfer* and not a *destruction* of wealth; *therefore*, the thing stolen is no part of the national wealth! We wonder what kind of syllogism leads to such a conclusion?

4. Mill then says that Statisticians who include the income of the fundholders in the general income of the country commit an error. That the taxpayers who provide funds to pay the fundholders have these sums already counted in their incomes; and that to count them as a separate income of the fundholders is to count the same sum twice over.

This argument is somewhat specious, and requires investigation. Now if it were true, it is quite clear that it must be extended to many classes besides fundholders: to all persons in fact who receive their incomes out of the taxes which are paid out of the general income of the country. Thus the Civil List of the Crown ought to be excluded from the catalogue of national incomes, so ought the whole pay of the military and naval professions: so the whole administration of the civil service from the Prime Minister

and the Lord Chancellor down to the humblest policeman: so the income of the Judges of all sorts and the Law Officers of the Crown. If Mill's argument be true the incomes of all these persons must also be excluded from the catalogue of national income, because they all stand on the same footing as the fundholders: they are all paid out of the taxes of the country. Are believers in Mill prepared to adopt these conclusions? If his argument be true, how can they escape from them?

But if Mill's argument be true, it must be immensely extended. The income of railways is paid out of the general income of the country, just as much as the income of the fundholders. Only in one case the taxation is voluntary, in the other compulsory. It is, therefore, wrong to reckon the income of railways separately. But the fact is, to make the matter short, a slight consideration will shew that the income of every trade, business, and undertaking whatever, in succession, is paid out of the general income of the country.

14. We may state the proposition in this form, *Every man's income is paid out of the income of some one else.*

The doctrine stated thus abruptly may startle some persons and may seem like a paradox: nevertheless, a very slight examination, with the assistance of some of the acknowledged fundamental truths of modern Economics, will very soon unravel the paradox: and it is contained in the extract from Smith we have already given,[1] where he observes that the same pieces of money pay every one's income in succession.

We need scarcely remind our readers that the old doctrine was that in an exchange *neither* side gains. Aristotle and Cicero both maintain this; and Luther was driven into one of his customary fits of fury, by the bare idea that in an exchange either side could gain, except by robbing the other. This doctrine, which had some show of plausibility in it, gave way to another which was palpably absurd. It was then maintained, that in commerce only one side gains—the other loses.

Then mankind, as usual, having tried every form of folly, were at last, perforce, driven to adopt the only remaining conclusion, that in commerce *both* sides gain. And this is now the acknowledged doctrine of modern Economics, which we have already fully explained.

[1] *Wealth of Nations, B. II., ch. 2. Ante, ch. 13, § 62.*

The proposition we have stated above, that every man's income comes out of the income *of some one else*, stands exactly on the same footing as the doctrine that in commerce both sides gain; and is the necessary consequence of it.

Now let us take a few examples.

We have shewn already that it is the wants of men alone which give value to the land. It is well known that men will continue to want food and clothing, and therefore owners of land devote their money and labour in producing corn and cattle. Now this is their capital. When this capital, in the form of corn, say, has produced its increase, the landlord offers it for sale to the public. The proceeds of the sale in ordinary times will exceed the cost of production. Now the portion of these proceeds which equals the cost of the investment replaces the capital, and all above that is profit or income. No doubt the landlord might, if he chose, spend the whole proceeds in personal enjoyment and then it would not be capital to him. But we suppose him to be a prudent man, and not disposed to diminish his capital. We may therefore consider, without error, all the excess of the proceeds above the cost of production, as profit or income, which he may spend upon his own enjoyment without diminishing his capital. Now, where does that income come from? Most clearly from the income of some one else.

A merchant, we will say, does business on a similar principle to the landlord. He invests a sum of money in business as capital, and that capital brings him in a profit, or income, which he may spend on personal enjoyment. With this income he buys corn and meat from the landlord. Hence the landlord's income is derived from the merchant's income.

Reverse the case. The landlord has made an income, and he wants things from the merchant for personal use. Therefore, out of his income he purchases things from the merchant, and hence the income of the merchant comes out of the income of the landlord.

It might, perhaps, be said by some, that though this is true, so far as it goes, yet it is not the whole truth. Because there are many traders who never deal with the public, or ultimate consumers, but only with intermediate consumers. Thus merchants deal with wholesale dealers, and these again with retail dealers. When the wholesale dealer purchases from the merchant, he purchases with capital, because he means to sell again. But the merchant of course must make a profit; and this comes, in this case,

from the capital of the wholesale dealer, and not from income. So the profits or income of the wholesale dealer come from the capital of the retail dealer. And here again is income made from capital.

But this objection, which seems plausible at first, is soon dissipated, when we consider that the ultimate consumer replaces all these profits in the price he pays for the article. The price he pays for it manifestly replaces the capital and the profits of all the intermediate parties, and consequently the profits made by these intermediate parties is, in fact, only an advance of the profit which is to be recovered at a future time from the ultimate consumer.

Now, the very same mechanism is true of all other traders and dealers whatever. Their incomes always proceed from the incomes of the ultimate consumers of the articles they deal in.

This is obviously true of Railways. The income of railways evidently comes out of the incomes of other classes in the community, and yet the income of railways is justly reckoned separately in the general income of the country.

It is also obviously true of all professional men. The incomes of lawyers and medical men manifestly come out of the incomes of their clients and patients. So the incomes of actors, and those of the musical profession, evidently come out of the incomes of those who frequent places of public amusement. And the incomes of all these persons are justly reckoned separately in the general income of the country.

We will take a case even yet more clear and decisive. A noble lord has an income of £50,000 a year. He keeps, perhaps, a French cook at £300 a year, a Scotch gardener at £250 a year, and a retinue of other domestics. Now it is quite evident that the incomes of all his *employés* and domestics comes out of my lord's income: and yet their income is reckoned separately in the income of the country over and above and distinct from my lord's income. And my lord pays income tax on his income; and each of his *employés*, whose income is above the limit, pays income tax on his income. And justly so.

Thus we arrive at this general truth, after exhausting the whole catalogue of incomes in succession—that the income of every man is made up by driblets out of the incomes of other people; and every man's income (at least, of those who spend it) goes to make up the incomes of all the persons he deals with, directly

and indirectly. And all this manifestly flows from the fact observed by Smith, that the same pieces of money pay every one's income in succession by endless circulation.

Hence, whenever there is exchange of money for services there is a profit, and income. Now the judges perform a public service, and consequently the salaries they receive from the public are justly reckoned as income, although they are paid out of the taxes. It is precisely the same with soldiers and sailors; they perform a public service, and the pay they receive is justly reckoned in the general income of the country, just as the services of the French cook and Scotch gardener are reckoned in the general income of the country, although the wages they receive come out of my lord's income which has already paid income tax.

The same argument exactly applies to the fundholders; they do a service to the nation by lending it money for any national emergency, and the annuity they receive in exchange for this service is truly income to them, and to be reckoned as part of the general income for the same reason that the incomes of soldiers, sailors, judges, &c., are.

These considerations satisfactorily prove, we think, that Mill's objection to the incomes of the fundholders being reckoned separately, as well as the incomes of the general public, is not well founded.

15. But we have still to investigate another question. Are the funds separate property? Are we to conclude that they are part of the *wealth* of the nation? Now to determine this, we must not let dust be thrown in our eyes by names, but we must look to the nature of the thing.

Let us suppose that a country was subject to inundations of the sea: and that to preserve the lives and property of its inhabitants it should be absolutely necessary to erect vast sea-dykes. Now, as these sea-dykes would be for the general benefit, it is manifestly just that all the inhabitants should contribute to their formation and maintenance. Now, suppose that the Government, wanting to execute the work quickly, borrows large sums of money upon the promise to pay interest for it out of the taxes of the country. The money borrowed to erect the sea-dykes is withdrawn from other purposes; and if it had not been spent in erecting sea-dykes, something else might have been created with it. But this

is evident—the sea-dykes are something. The people of the country wanting them have paid money for them, and therefore they are to be placed in the same category as any other property. It is evident that the sea-dykes of Holland are fixed Capital to the country.

Now let us suppose that in order to make the original loans more generally useful and convenient for the lenders, the Government makes the certificates, or vouchers of the loans, and the right to receive interest, transferable—would they not be separate and independent property? Call it by what name we please—stock, funds, or public debts—it is perfectly evident that it is independent property.

Now such a country is Holland, which draws 20 feet of water. The sea-dykes of Holland were formed, and are maintained, at a great expense.

Now let us ask this question, are the sea-dykes of Holland part of the *wealth* of Holland? Under the peculiar circumstances of that country, they are wanted; they are useful: they are the result of human labour; and they are embodied in a material form. Taking the very narrowest view of wealth that any Economist has taken, these sea-dykes, under the peculiar circumstances of the case, answer all the conditions of wealth. It is perfectly clear that they stand in just the same position as roads, canals, and railways, and a great quantity of the other fixed capital of the country. The people continually want them, and they pay a portion of their annual income to the persons who made them, and that forms the income of the persons who constructed them, and is justly reckoned as a separate item in the catalogue of the general income of the country.

So the stock of any public company engaged in any trading enterprise is manifestly part of the wealth of the country. But the value of this stock manifestly depends upon the income which accrues to the company, and that income is derived from the incomes of the general community. The subject of shares in public companies is more fully considered further on.

It is perfectly manifest that the public funds are property analogous to the stock or shares of any public trading company. For a country may have other enemies besides the sea. She may have human enemies, and it may be necessary to raise fleets and armies to defend her existence. And to preserve her security from

these enemies it may be necessary to borrow large sums of money upon the promise of paying an annual interest for it out of the income of the country, and the shares of those who advance this money may be made transferable, and are the public funds, or public debts.

Now it is evident that the funds, created to obtain this moral security, are just as much separate property as the funds, or stock, created to obtain the material security of the sea-dykes. In either case it is a service done to the general public, who have to pay for it out of their general income, just as they pay for every other service whatever. And the incomes of those who render this service stand in the same position as the incomes of those who render any other service whatever.

These considerations manifestly shew that the funds, or public debts, are property, as much as any other property, and they are properly reckoned as independent items in the general property of the country. No doubt the money might have been spent in some other way, and some other product might have been obtained instead. It is also true that the expenditure may have been injudicious, and other things might have been produced which would have been more advantageous for the country, but these considerations in no way affect their existence as property.

The argument of Mill, then, is wholly erroneous as applied to fundholders: the case to which it would apply is where a father makes his son an allowance, as, for instance, to keep his son at college: in this case the youth does nothing to earn an income: it is a pure gratuity: it comes out of his father's income: and is no more to be reckoned as part of the income of the country than the sum spent in maintaining children in their father's house is part of the income of the country. Suppose, however, a father has a son in the Guards, and, finding his pay not sufficient to enable him to maintain him suitably to his position in society, makes him an allowance; then the pay he receives is part of the income of the country, because it is earned in exchange for a service done; the allowance which he receives from his father is not income: it is mere expenditure on the part of the father, and not to be counted as income; but the interest paid to the fundholders is a sum given in exchange for a service rendered, and therefore it is income.

The true reason, therefore, why the funds are property, and the

incomes of the fundholders are to be reckoned as part of the general incomes of the country is, that they are payments made in exchange for services done. And to make this still more clear, we may take as examples the cases of persons who do not receive permanent salaries for continuous services rendered to the State, like judges, and public officials, but those who do it a temporary service, like public contractors. Suppose, for example, the Government contracts with a private shipbuilder to build them some iron-clads: then the money earned by the shipbuilder is part of the general income of the country, precisely in the same way as if he had built them for private persons: and yet it comes out of the general taxes of the country. The same principle applies to all other public contractors; army contractors of all sorts, contractors for supplying clothing, arms, rum, bacon, beef, and other stores of all sorts. So contractors for building the great public offices; and all other public contractors whatever. The incomes of all these contractors are reckoned as part of the general income of the country, precisely in the same way as if they had performed these contracts for private persons. And if these incomes are part of the general income when the services are performed to private individuals how can they cease to be so when performed for the State, which is only an aggregate of private individuals, and who pay the price of these services in taxes? Such an idea is manifestly absurd on the face of it. Now the case of the fundholders is precisely similar to these great public contractors. They do a service to the nation by lending their money to the State for some public want, and they have the same right to be paid for this service, as all these other public contractors have; and their income, *i. e.*, the funds, is part of the general income of the country, just as much as the incomes of the other public contractors.

In the preceding extract we see another example of Mill's confusion in the use of the word Wealth. He says—"in the wealth of mankind nothing is included which does not of itself answer some purpose of use and pleasure." But he says—"to an individual anything is wealth which, though useless in itself, enables him to claim from others a part of their stock of things, useful or pleasant." Thus the essence of "national" wealth, according to Mill, consists in utility or pleasure; the essence of "individual" wealth, in exchangeability. It is needless to point

out that such a distinction between "national" and "individual" wealth is utterly unphilosophical and inadmissible. If the essence of individual wealth consists in "purchasing power" or exchangeability, the essence of national wealth must equally consist in purchasing power. A merchant's credit, according to Mill and popular ideas, is his purchasing power: if individual wealth resides in exchangeability or purchasing power, the essence of national wealth must equally reside in purchasing power. A merchant's credit, according to Mill, is his purchasing power; so the public credit is the purchasing power of the nation. A private debt is the Right of the creditor to demand a sum of money from a private person; a public debt is the Right of the creditor to demand a sum of money from the State. Where is there any distinction in nature between these Rights and Duties? It is obvious there is none. These Rights, public and private, are saleable, therefore they are equally wealth, and for the same reason.

On TITHES.

16. We now come to another species of Incorporeal Property of great importance, TITHES.

In ecclesiastical law, Tithes are the Right to demand the tenth part of the yearly profits, or increase, from the land; the stock upon land; and the personal industry of the inhabitants.

Tithes of the increase of the land itself, such as corn, hay, hops, fruits of all sorts, are called *prædial* Tithes; Tithes from the increase of the stock upon land, such as calves, lambs, pigs, poultry, eggs, butter, cheese, &c., are called *mixed* Tithes; and Tithes from the profits of personal industry of all sorts, handicrafts, arts, and professions, are called *personal* Tithes.

And here it may be remarked that Tithes, like an Annuity, do not mean the things actually paid, the corn, the calves, the money, but the Right to demand them. And as it is by no means improbable that there may be an inquiry into the nature of these rights before long, it will be of some advantage to give a succinct history of their origin: and for this, it may be as well to say, once for all, that we are chiefly indebted to Selden and Spelman.

All nations of antiquity seem to have considered the tenth part of the profit from any source as the portion due from the

reverence of mankind to the Deity. The laws regarding the payment of tithes among the Jews are too well known to require to be quoted here. But we may observe that the Jewish doctors themselves held that the payment of them was limited to the land of Israel. Jews in foreign lands paid none; neither were any paid after the destruction of the second temple, even in Canaan, because there was no priesthood to pay them to.

The Syrians, the Phœnicians, Arabians, Æthiopians, Carthaginians, Romans, and Greeks, all held the same opinion. The Pelasgi who settled in Italy gave the tenth of the profits of their maritime trading to Apollo at Delphi, according to the command of the oracle of Dodona.[1] It was the custom of wealthy Romans to dedicate a tithe of their profits to Hercules. This custom was said to have been introduced by Recaranus in the time of Evander, when he recovered his cattle which Cacus had stolen. This, however, was a voluntary custom, not enforced by any law, civil or religious. It extended to money gained by trafficking, and to the spoils of war. Thus the parasite says he must gain as much as he can that he may offer the tenth to Hercules—

> "Hæc veniisse jam est opus quantum potest,
> Uti decumam partem Herculi polluceam."[2]

Lucius Mummius offered a tenth of the spoils of Corinth to Hercules. Hence the tenth was often called *pars Herculanea;* and several other authors speak of this custom.

They often, however, offered tithes to other Deities. Camillus devoted a tenth of the spoils to Apollo;[3] Postumius, the Dictator, offered a tenth of his spoils to Ceres, Bacchus, and Proserpina: Fortune and Mercury also received the tithes from travellers and tradesmen. This custom continued during the Empire, and Justinian enacted that if any person died having vowed tithes, his heir should be bound by the vow. And the same law was held good among the Christians.

The Greeks frequently offered their tithes to Apollo, who seems to have been their principal favourite in this respect: but Jupiter Olympius, Neptune, Diana of Ephesus, Juno, and Pallas, sometimes shared these honours. The Carthaginians sent a tithe of Sicilian spoils to Hercules at Tyre; and the Arabians had a law that every merchant should carry his frankincense to their chief

[1] *Dionys. Hal., l.* 1. [2] *Plautus in Sticho, l.* 221. [3] *Plutarch in Camill.*

city Sabota, and offer a tenth of it to Sabis: and no sale was allowed till it was paid.[1]

17. For four hundred years after the foundation of Christianity there is no vestige of any such right as Tithes being claimed or allowed in the church. The bounty of the early converts far exceeded a tithe. At Jerusalem, certainly, the infant sect attempted for some time a community of goods. Philo Judæus says that in Egypt and many other provinces the Christians lived together in societies, in monasteries, where none possessed private property; no man was rich and none poor: all divided their substance with the necessitous. This community of goods, however, was not generally adopted: the disciples at Antioch had separate property:[2] and St. Paul directed[3] the converts at Corinth and in Galatia to make weekly collections, when every one should give according to his ability. For these weekly offerings, monthly collections were afterwards substituted, called *stipes*, the name given to the collections made by the heathens for their temples and deities. Dionysius Corinthius in a letter to Soter, Bishop of Rome, 170 A.D., congratulates him on the liberality of the Roman church: and this continued up at least till the great persecution under Maximinian and Diocletian in 304, as Eusebius testifies.

So Tertullian, about 200 A.D., speaking of the flourishing condition of the African and other churches, says that whatever they had in their treasury was not raised by taxes as the price of religion: every one brings his modest offering once a month, or when he pleases, and how he can. No one is obliged, but contributes of his own accord. These are considered as pledges of devotion, and are not spent in eating, drinking, and feasting, but in supporting and burying the poor, and destitute orphans, the old and sick, and other charitable purposes.

Urban, Bishop of Rome, 227 A.D., first ordained that the Church might receive lands, and that they should not belong to any private individual, but that their revenues should be distributed proportionably to every one. Origen[4] also asserts it to be utterly unlawful for Christian Ministers to possess any lands, and that their rents should be distributed among the necessitous; and

[1] *Pliny Hist.*, 12, c. 32.

[2] *Acts*, 11, 29. [3] 1 *Cor.*, 16, 2. [4] *Homil.*, 16, *in Genes.*

that ministers should not have more than enough for their simple diet and clothing. Stewards, named *Œconomi*, were appointed to manage the property of the church.

Origen seems to have been the first who began to affirm that Tithes are due by Divine Law. He has a homily on the first fruits of the Law, in which he says that some things of the Mosaic Law are to be literally observed, and among these he names first fruits and tithes. But no other writer of the church seems for a long time to have repeated that opinion. Cyprian, writing about half a century later, blames the general coldness of the devotion in his day, and the neglect of giving offerings, compared with the liberality of former times, and says—"but now we do not even give tithes of our substance."[1] And until the end of the fifth century there are no authentic documents to shew that there was any payment to the Church of any tenth part, as a Tithe, claimed. Whatever may have been the case in other parts, the oblations of the Christians at Rome so enriched the clergy that Ammianus Marcellinus says that their wealth was much wondered at, and envied: and St. Chrysostom preached a sermon expressly against those who envied the clergy their wealth, which he said came only from the voluntary offerings of the faithful.

Some alleged constitutions of the Church assert the divine right of Tithes; but Selden has shewn that these are notorious forgeries; and none of the Councils of the Church for 600 years make any mention of tithes, even in those canons relating to the lands, goods, offerings, and other revenues of the Church.

But about the end of the fifth century a custom began gradually to grow up of endowing churches with tithes, for the payment of the abbots, the poor, and the clergy; and as voluntary liberality waxed colder, the duty of paying them began to be asserted more strongly and distinctly.

That intrepid prelate, St. Ambrose, Bishop of Milan, was the first boldly to assert that tithes are due by divine right. In a sermon on repentance, he says—"It is not sufficient for us to bear the name of Christians, if we do not do Christian works. God orders that tithes are to be demanded of us every year of all fruits, cattle, &c."—"Whosoever is conscious that he has not faithfully paid his tithes, let him immediately amend his fault, and faithfully pay his tithes, and not offer less to God at any time, of his corn,

[1] *De unitate Ecclesiæ*, § 23.

or his wine, of the fruits of his trees, of his cattle, or his garden, or his business, or his hunting. God has reserved to himself the tenth part of all the substance he has given to men; and therefore it is not lawful for man to keep to himself what God has reserved for Himself." St. Augustine, Bishop of Hippo, is equally emphatic in enforcing this duty, and says that if they have no fruits of the earth to offer they should pay a tithe of whatever they live by—"Whatever mode of living supports you is of God: and hence he exacts a tenth part of your income: render a tithe of the spoils of war, of the profits of trading, and manual labour."—"Tithes are demanded of right; and he who refuses to pay them robs the property of another." He adopts all the texts out of the Old Testament, and gives many other strong injunctions respecting them, and says that the non-payment of them has been the cause of many national calamities.

About this time the custom of paying tithes of all fruits was generally established in Egypt as well as in Pannonia. In a Provincial Council at Macon in 586 A.D. the payment of tithes into the hands of the ministers of the Church is spoken of as of considerable antiquity, and grounded upon the Mosaic Law, which they say is to be preserved intact by the Christians. This is the first authentic canon on the subject, but it was not received into the general body of ecclesiastical law. Leo the Great, though he exhorts Christians to be liberal in their offerings, does not mention any specific quantity. St. Jerome and St. Chrysoston do not, indeed, affirm it to be a legal duty to pay tithes, but they exhort Christians to be not less liberal in their offerings than the Jews; and say that they should not give less than a tenth of all profits gained either from the earth, or by trade, or by any other just employment of person or estate. These opinions prove that no right to demand tithes was as yet established: and this is confirmed by Agobard, Bishop of Lyons, who in a treatise on the dispensation of church revenues expressly denies that before his time any synod or general doctrine of the Church had determined or ordained anything touching the quantity that should be given either for the maintenance of priests, or the building of churches.

Nevertheless, the opinion that tithes are due by Divine Right gradually became stronger, and was zealously enforced by the clergy, and numerous consecrations were made to several churches. Pepin, the ancestor of Charlemagne, endowed the church of

Utrecht with all tithes of slaves, lands and taxes, trading and other property.

And at this time the well known quadripartite division of these offerings was made: one part for the maintenance of the ministers; a second for the relief of the poor, sick, and strangers; the third for the repair of the church; and the fourth for the Bishop. And this was confirmed by a Law of Charlemagne in 778 A.D., in a general assembly of his Estates, both spiritual and temporal.[1]

The doctrine that tithes are due by divine right was now repeatedly asserted in several councils, as by that of Mentz in 813, and many others, grounded as well on the Levitical Law as on the examples of Abraham and Jacob. Walafrid Strabo, about 840, says—"Abraham shews by his deeds and Jacob by his promises that tithes are to be given to God and his priests: then the law enjoined it, and all the Doctors of the Church repeat it." They were called *res Dominicæ, Dominica substantia,* and *Dei census.* They were also called *patrimonia pauperum, tributa egentium animarum, stipendia pauperum, hospitium peregrinorum.* Pope Alexander II., in advance of Leo, says in a letter to the Bishop of Reims, that they were not instituted by man, but by God. Pope Cœlestin III. also asserts that a true believer is bound to pay tithes on all he may lawfully acquire. Innocent III. asserts that God has ordained that tithes should be paid to Him in recognition of His universal dominion. The General Council of the Lateran in 1215 confirmed this, for the first time making it a general law of the Church, as well as of the Empire. The clergy now universally pressed their penitents with the question whether they had duly paid their tithes, and if they had neglected to do so imposed a penalty of fourfold the amount, and a penance of bread and water for twenty days. This was now an integral part of the Canon Law; and there was no difference made as to the nature or the source of the increase: the tenth of all profits or increase, prædial as well as personal, was held to be due.

Pope Innocent IV. makes it a wonder to see any man deny that personal tithes are due by Divine Law. The learned Alexander Hales asserts that personal as well as prædial tithes are due by Divine Law. At Venice and other cities where there could be no prædial tithes, personal tithes were enforced by positive law.

[1] *Selden, ch.* 6, § 7.

18. The clergy in England also asserted that tithes are due by divine right. In a collection of canons made about the time of Henry I., which were alleged to be of the eighth century, one enjoins the clergy to teach that tithes are due by the law of God; of which one part is to be dedicated to the church; a second to the poor and strangers: and the third to the clergy.

The first legal enactment of them seems to have been by Offa, King of Mercia, and Aelfwold, King of Northumberland, who held a synod in 786 A.D. under two legates from Pope Hadrian I., attended by all the great men of the kingdom, and it was ordained that every one should pay tithes of all his possessions. This was confirmed in 900 A.D. in a treaty between Alfred and Gutarun the Dane, to whom some of the eastern provinces were given to hold of the crown, and penalties were enacted for their non-payment. Similar enactments were repeated by Athelstan in 930, Edmund in 940, Edgar in 970, and Ethelred in 1010, which need not be quoted, as they contain nothing new. Edward the Confessor, as might be expected, was very minute in his directions as to tithes, and after enumerating every species of the produce of land and cattle, he expressly orders them to be paid for business and everything which God has given.

After the Conquest the injunctions as to the payment of tithes were repeated in many synods, and the frequency of these enactments would certainly seem to shew that they were generally evaded or neglected. To put a stop to this, as well as to the scandals and quarrels which arose as to the persons to whom they were paid, a still more stringent canon was made in a Council held in London 23 Edward I., in which, after making many minute regulations as to the payment of prædial and mixed tithes, it was ordained that personal tithes should be paid by all artisans and merchants from the profits of trade; so also by carpenters, smiths, masons, weavers, innkeepers, and all workmen for hire, with severe penalties for non-payment.

It is quite certain that before the Reformation personal tithes were paid, though to what extent it is impossible to say. In 5 Henry VI. a certain William Russell had maintained that personal tithes are not payable by the law of God, and that every one might dispose of them in such charitable purposes as he thought best. To contradict this doctrine, the University of Oxford in that year issued a solemn letter under its seal in

which it declared that personal tithes are payable as well by the law of God as by the tradition of the Christian fathers, and the authority of the Church; and that whoever held the doctrine that personal tithes are not payable by Divine law was to be held as a heretic, and excommunicated as a rotten member. And Archbishop Chicheley ordered all parsons to preach that personal tithes are due by the Law of God and the Church. These canons were confirmed by Act of Parliament 27 Henry VIII., c. 20, which enacted that every one should pay his tithes, both personal and prædial, after the manner and custom of the parish in which he lived, according to the Ecclesiastical laws and ordinances of the Church of England. By the Statute 31 Henry VIII., c. 13, and 32 Henry VIII., c. 7, for the dissolution of the monasteries, the possessions of the dissolved monasteries were transferred to the Crown: and it was allowed to make grants of tithes to laymen, in the same manner as grants of any other estates in land: ecclesiastical persons were to pursue their remedy before the ordinary, and laymen who claimed under a grant from the Crown before the secular courts, in the same way as any other lay property. Though tithes had in many cases got into the possession of laymen on the continent for many centuries, this was the first occasion on which they became the property of laymen in England.

By Acts 27 Henry VIII., c. 21., and 37 Henry VIII., c. 12., the citizens of London were ordered to pay their tithes to the parsons, vicars, and curates of the City, according to the rate of 2s. 9d. for every pound of the rent of their houses, and if no rent were reserved, then according to the rent for which they were last let. Besides this, there were to be paid as ecclesiastical dues, every Sunday and principal feast day, one farthing for every ten shillings of rent. Besides this, moreover, they were liable to pay personal tithes on the profits of trading. Before this Statute and Decree the citizens of London had not been in the general habit of paying tithes.

The last Statute on the subject of tithes is 2 and 3 Edward VI., c. 13, which enacted, that all tithes, prædial as well as personal, should be paid in the manner which they had been during the last forty years. These are the last Statutes on the subject, until we come to those commuting the payment in kind into a rent charge, which we shall notice presently.

19. The preceding extracts are sufficient to give a correct idea of the origin, nature, and law of tithes in this country. Stripped of all ecclesiastical rubbish, which has no effect in these days, it appears that they were, in fact, a ten per cent. rate upon the income of every one in the kingdom from whatever source arising, whether land, cattle, or trading, arts, professions, and industry of all sorts. The 2 & 3 Edwd. VI., c. 13, s. 7, exempts servants in husbandry from tithes, which shews that until that time they were liable; and Spelman says that in his day, in many parts of England, servants paid tithe on their wages. He says those who have annuities and fees must pay a tithe out of every accession of wealth that God sendeth in any course whatever, so that gains of buying and selling, and the great improvement arising by merchandise is under this title commanded, precisely in the same manner as these profits are taxed for the civil service of the Sovereign. In fact, by all laws, ecclesiastical and civil, every one was placed exactly on the same footing regarding his heavenly and earthly sovereigns; he must pay a rate of ten per cent. on all his income for the service of the ministers of God and other charitable purposes, and he must also pay his taxes to his King, and all sources of his income were equally taxable for each.

Tithes are now divided into two parts: 1st, those which have become the property of laymen; and secondly, those which are still paid to the clergy of the English Church.

Tithes in the hands of laymen are undoubtedly, like any other estate in land, the absolute property of their impropriators, because they have the right of inheritance in them. However iniquitous and scandalous such grants may have been in their origin, they cannot be assailed now.

But tithes which are paid to the clergy of the Church of England stand on a totally different footing, and as many signs seem to shew that an investigation of the relations between State and Church may be made a political question before very many years pass away, it may be as well to examine shortly the interest which the clergy have in tithes.

20. Many persons seem to suppose that the ministers of the Church of England form a huge corporation, called the Church, to which the State has granted tithes as absolute property, like the estates of private individuals, and that if the Church were

disestablished the clergymen of the Church would be entitled to this property in perpetuity. Such ideas, however, are wholly erroneous. In the first place, it is the people of England who constitute the Church of England, and not the ministers only. To suppose that the clergy alone constitute the Church is as absurd as to suppose that the ministers of non-conforming congregations constitute the congregation.

In the next place, there is no such corporation as the Church of England: each of her officers, bishops and rectors, &c., is a corporation sole, or an ecclesiastical person, endowed with certain rights by the good will of the State. And when the sovereign authority of the realm imposed a rate upon the people to support the ministers of the church, when the people were all of one mind on religion, it stands upon no higher footing whatever than when a congregation of non-conformists enter into a contract to pay a stipend to a minister either for a certain time, or for life. The contract, no doubt, is valid so far as the individual minister is concerned; but it is a mere personal contract with himself, he has merely a life interest in it: he has no right of inheritance in it which he can transmit to his heirs; and this is the essential distinction between tithes which have become the property of laymen, and tithes which are still paid to the clergy.

A non-conformist congregation must not, of course, break an existing contract; if it makes a contract with a minister to pay him a salary for life, they must, of course, observe that contract during the minister's life. But they are in no way bound to enter into a similar contract with a successor. And if they choose to dissolve themselves, and discontinue paying a minister, it would be absurd to suppose that a succession of ministers could claim the payment of the salary in perpetuity.

Precisely the same principle applies to the Acts endowing the clergy of the church with tithes. When the nation was all of one mind in religion it made certain laws, which were nothing else than a kind of general contract that those who became the ministers of the church should be paid in a certain way. It would have been extremely inconvenient to have made a separate contract in each case; so it made a general contract once for all; and, of course, all persons who enter the ministry while these Acts continue in force acquire a life interest in them, which cannot be infringed. But they have no right of inheritance in

them which they can transmit to their successors, any more than the ministers of a dissenting congregation have in their contracts. And the State is just as free to refuse to enter into any such contracts in future, as a dissenting congregation is; or to change the doctrines to which it gives support.

It has done so once already, and it may do so again. England was formerly in communion with the Church of Rome, and it granted these revenues to clergymen of that persuasion. But the nation broke off from communion with the Church of Rome, and from the doctrines of that Church; and consequently it refused to contribute these revenues any longer to clergymen who held Roman doctrines. So if the nation were to adopt the Presbyterian doctrines and polity, it would naturally refuse to make any new contracts with Episcopalian clergymen. The State has, in short, exactly the same right to discontinue the maintenance of a body of clergy as it has to discontinue the army, or the police, or to dissolve the Board of Trade, or any other Government office it may see fit. And, saving all existing contracts and interests, the clergy of the present Established Church have no more right to hold tithes to be their property than the army, or the police, or any Government officials have a right to consider the taxes out of which they are paid, their own private property, and transmissible to their heirs. Tithes are simply a clergy rate, and stand exactly on the same footing as poor rates, police rates, water rates, or any other rates. If, therefore, the State should see fit to disestablish the Church, the clergymen who may in future hold the doctrines now held by the present existing Church have not the smallest particle of a right to any State endowments; whatever they may have to any endowments and donations from private persons, which question we are not concerned with here.

So far, we think, there can be no difference of opinion among persons who look upon the question dispassionately.

Supposing that the Church of England was disestablished, to whom would the tithes now paid to the clergy belong?

Seeing that the Episcopalian clergy have not a shadow of a right to claim tithes as a perpetual possession, many persons maintain that they are national property. It is often alleged that they are property reserved by the nation for the service of God; and if they are withdrawn from the clergy, that they should be appropriated by the nation.

Now it may be said in a certain sense that tithes are national property; but so is every rate and every tax, in the same sense, national property. If there be a public necessity the nation may at any time lay on a 10 per cent. income tax. But no one supposes that when the occasion has passed away, that tax is to be retained as national property. No one ever said in respect of any other tax or rate, that it is national property reserved for certain purposes. When it is no longer wanted the tax is simply remitted, and those who previously paid it cease to do so.

Some Economists, for example, have maintained the expediency of abolishing the Poor Laws, which have existed for centuries. If this were done, the ratepayers would be simply relieved from this burden, and would cease to pay poor rates. No one would maintain that poor rates are national property set apart for the poor, and that if it were deemed expedient that they should cease to be applied to the maintenance of the poor, they should be appropriated by the nation. All the landed property in this country has been bought and sold for centuries under the burden of paying poor rates, and these have been so heavy at certain times, that in many parts of the country, the land has been scarcely worth cultivating. And yet if the land were relieved from the burden, no one would dream of claiming poor rates as "national" property. And the same is true of all taxes and rates, whether they fall on income or property. Whenever the State has thought fit to remit them, those who hitherto paid them, simply ceased to do so. In no instance whatever have they ever been claimed as "national" property.

Why then should the clergy rate stand on any different principle from any other rate or tax? from the hearth tax, the window tax, from poor rates, police rates, and other county rates?

We have shewn most clearly that by the opinions of the Doctors of the Church, by all the Ecclesiastical Canons and the Statutes of this Realm, personal tithes are due to the clergy exactly in the same way as prædial and mixed tithes. The tenth guinea earned by every lawyer, by every medical man, by every architect, by every engineer, by every merchant, by every banker, by every trader, and by every trading concern, by the Bank of England, by all the Joint Stock Banks, by the *Times* newspaper, by the *Daily Telegraph*, by the *Standard*, is as rightfully and legally the property of the clergy as the tenth sheaf, the tenth calf, the tenth lamb, the tenth pig, the tenth egg, the tenth cheese of the farmer.

But as a matter of fact, all classes of the community, with the single exception of the agriculturists, have emancipated themselves from the burden of paying tithes, and kept them to themselves.

And thus the *national* church is supported by a rate levied on a single class of the community, in defiance of every canon and every Statute on the subject. Would it not be just as absurd to compel the legal or medical professions to maintain the *national* army? or to make the trading classes exclusively support the *national* navy? And yet where would the clergy be if they attempted to enforce their undoubted legal rights? Imagine the flutter it would cause if the London clergy were to summon the great London bankers and merchants, the Bank of England, the Joint Stock Banks, the *Times*, the *Daily Telegraph*, and the *Standard*, before the Ecclesiastical Courts for the payment of Tithes, or the citizens of London for 2s. 9d. in the pound of their rent, as they may undoubtedly do by strict legal right!

Every one would scout such an idea. Every one knows that it would be utterly impossible at the present day to revive the payment of personal tithes, and compel all the professional, the artistic, and the trading classes to pay a ten per cent. income rate to the clergy. And this being so, it is clear that if the nation chooses to maintain a *national* clergy, their salaries should be paid out of the general taxes of the country, which is the only way by which at present all classes can be reached.

As the case stands, the clergy have lost enormous revenues which are legally theirs. And the rates which the agriculturists have paid have been exclusively appropriated by the clergy; when by the original constitution of tithes, they were intended to support the poor, and the churches as well. But, as it is, the agriculturists, those patient beasts of burden, have been loaded with poor rates, with church rates, and all sorts of rates in addition. Would any other class of the community have submitted so long and so patiently to such injustice?

When, therefore, we examine the history, the law, and the actual practice of paying tithes, as well as the analogy of all other taxes and rates, it is clear that the notion regarding tithes as national property, to be appropriated by the State, in the event of the disestablishment of the Church, has not the shadow of a foundation to rest upon. All other classes have ceased to pay tithes, contrary to their plain legal duty, and retained them in

their own pockets; and then, forsooth, they claim the rates paid by the single class of the community who have uninterruptedly observed the law, as *national* property! Before they do this let them first make restitution to the clergy of the enormous revenues which they have so long illegally withheld from them. When the whole professional, artistic, and commercial classes consider every tenth guinea earned by themselves as national property, it will be time to claim the tithes paid by the agriculturists as national property—and not till then.

It will be as well, however, to examine a little further the common argument, that as the present proprietors have received or bought their estates subject to this burden, they have no right to its remission. To answer this, we have only to consider analogous cases.

In former times a hearth tax was laid upon every dwelling, which was afterwards changed to a window tax. Innumerable houses were bought and sold while subject to the hearth and window taxes, when consequently their value was greatly diminished. When these taxes were repealed, the owners of the houses at the time were relieved from this burden and reaped the benefit. Did any one ever think of saying that these taxes were national property; that the owners of the houses had no right to them; and that they must be retained by the State?

So of the Income Tax paid to the State. All landed property, all shares in commercial companies, are liable to pay Income Tax, which, of course, diminishes their value. If this tax were repealed, the owners of the land and shares would be relieved, and reap the benefit of it. Would any one dream of saying that this was *national* property, and must be retained by the State? How, then, can an Income Rate paid to the clergy differ in any way from an Income Tax paid to the State? This argument was alleged when compulsory church rates were abolished: it was said that the present owners had acquired their estates subject to the burden of church rates, and that they had no right to free themselves from them. But that argument was not held to be valid. For if it had been, how could any class of the community ever be released from an unjust tax? And if the argument failed with respect to church rates, why should it hold with respect to tithes? Thus, when we examine the matter closely, we find that the burden of proof is shifted to those who insist that one kind

of rate should be treated differently from all other rates and taxes.

21. Such continued to be the law for some centuries, until the general desire for agricultural improvement, and other things demonstrated the necessity of abolishing the absurd and barbarous system of paying tithes in kind, when all other species of rent had been commuted into money. It will always be considered as a striking monument of barbarism that for more than 1,000 years after the constitution of tithes in this country, they were still legally payable in kind. The practical good sense of the people, however, had generally commuted the payment in kind into a payment in money. It has been said that payment in kind was not made in one case in thirty. But liability to tithe was a serious, and in many cases an insuperable bar to agricultural improvement. It had, indeed, been enacted that newly reclaimed land should be exempt from tithe for seven years; but after that period it would be subject to pay one-tenth part of the gross produce to the tithe owner. What other industry could stand such a burden? Where would the cotton mills of Manchester have been if one-tenth part of the gross produce, or even of the net profits, had been extracted from them as tithe to the clergy? And yet they are equally liable to pay this rate as the agriculturists, by law. In numerous instances it was so evident that the exaction of the full legal tithe would prevent all improvement, that the clergy agreed to accept a smaller amount rather than have none at all. But nothing can be more unjust than that a single branch of industry should continue to be subject to such a burden, all other branches of industry which were equally subject to it by law having quietly discontinued it.

During the Commonwealth, when so many other reforms were attempted which have only been permanently realised in our own day, it had been proposed to commute the payment of tithes in kind into a rent charge; but it did not succeed. At length, in 1836, this great reform, which was absolutely indispensable for any general agricultural improvement, was effected by the 5 and 6 William IV., c. 71. Tithes were commuted into a fixed corn rent charge at their then value. Their average amount for the seven years preceding 1835 was taken. The value of one-third of the amount was estimated in wheat; another third in barley; and

another third in oats: these were taken as a permanent fixed basis. The controller of the corn returns is ordered to publish in January every year the average prices of wheat, barley, and oats during the preceding year: and the tithe-payer has to pay an amount every year on these quantities of wheat, barley, and oats, calculated on their average prices during the preceding seven years. And so steady has been the average price of these kinds of corn on a long series of years, notwithstanding the repeal of the Corn Laws, that on an average of 37 years, the tithe owner has received £110 10s. for every £100 of tithe rent charge as fixed in 1836. Other enactments are prescribed for other kinds of crop, such as hops, market gardens, &c., which we need not enumerate in such a work as this. By this and a series of cognate Statutes a great relief has been accomplished for agriculture: the rate payable by law has become a fixed burden, and all future industry is left free. But yet nothing can excuse the injustice of allowing all other species of industry to emancipate themselves from a burden to which all were equally liable; and leaving the single industry of agriculture to bear it. The only just, and the simplest way of solving the perplexing difficulties which surrounded the question would have been to enact that all payments of tithe should at once cease and determine, and that every member of the ministry should be paid the exact sum he had been receiving as tithes out of the Consolidated Fund. This would have been the only way of making a national payment to a national clergy: and of compelling all the classes who had so long evaded their legal duty to bear their fair share of the national burden. And this, indeed, is what ought to be done now: though, of course, there is not the smallest chance that it will be done. But, at all events, these considerations seem to shew that the other classes of the community who have so long illegally withheld such large revenues from the clergy have not a shadow of right to consider the tithe rent charges paid by the agriculturists as *national* property, if the nation should ever deem it expedient to cease to maintain the Established Church.

Closely connected with tithes is another species of Incorporeal Property called an ADVOWSON, which is not even a right to any material thing, but only the Right to present to a Right. A grant of tithes is called a *Benefice:* and an Advowson (*advocatio*) is the Right of presentation to an ecclesiastical benefice. The

owner of the advowson is termed the Patron of the benefice, but, as such, he has no property or interest in the tithes or the glebe, which belong to the incumbent. As patron he has only the Right of nominating the incumbent as the benefice becomes vacant. Of course, we cannot enter into the origin of advowsons and lay patronage, nor on the expediency of permitting advowsons to be sold; but as a matter of fact they are valuable rights, and exchangeable property, and therefore they are Wealth by our definition. The value of an advowson is usually about eight times the yearly value of the benefice.

At the present time the value of this species of property in England is very large, probably not less than £16,000,000; and here is another example, if any more were necessary, to shew the extreme folly of the doctrine that all Wealth is material and comes from the earth; and that all value is the produce of labour. An advowson is the Right to present to a Right, and how is this Right formed out of the materials of the globe, or how is it the produce of labour?

22. The last species of Incorporeal Property which it may be necessary to mention is a Policy of Insurance. Any sum of money being equal in value to an annuity, an exchange may be made between an annuity and a sum of money. In the funds a person pays down a sum of money and receives in exchange an annuity, or the right to a series of payments. In an insurance a person pays an annuity, estimated according to scientific laws, and buys the Right to a sum of money on some contingency happening. In some cases he cannot, in other cases he may, sell or assign this policy, and therefore it is wealth to him. And here again we see how an obligation may be capital. A policy is an obligation of the company; but it produces them a revenue; hence it is capital to them. The amount of Property in Policies of Insurance is very large and constantly increasing; and are these Rights formed out of the materials of the globe, and are they the produce of labour?

We have now said enough regarding Rights of Obligation: they are called *choses-in-action* because there is always some person who is bound to discharge them, and if he refuse to do so an action will lie against him.

On RIGHTS OF EXPECTATION.

23. We have now to consider another very important class of Incorporeal Property, in which, although some person is entitled to receive the payment or the profits, no other person in particular is bound to make the payment, but it is only expected or hoped that some one will. This species of property, therefore, cannot correctly be called a *chose-in-action*, though it sometimes is. It is called in Roman Law *emptio spei* or *emptio rei speratæ*. It is merely the Right to an expected or hoped for profit; and hence it may be called a Right of EXPECTATION.

To this class of Incorporeal property belong Shares in Commercial Companies of all sorts: Copyrights: Patents: the Practice of a Professional man: the Goodwill of a business: Tolls: Ferries: Fisheries; and some others.

On the CAPITAL AND SHARES OF A COMMERCIAL COMPANY.

24. In comparatively recent times an enormous class of Property has been created, the fruit of commercial enterprise and the spirit of association. Commercial enterprises are now conducted on such a colossal scale that the capital of no single person is adequate for them: they require the joint contributions of a large number of adventurers. Each adventurer is entitled to share in the profits in proportion to the capital contributed by him. And as he is not allowed to withdraw his capital, and may not wish to continue a member of the Company, he is allowed to sell or assign his Right to the future profits, just as a fundholder can only receive his principal by selling his right to the annuity to some one else.

To understand this subject properly we must revert to the example of land, the standard case of value. In this case the Capital or source of the annuity, the land, is corporeal, and before our eyes. It may be seen and handled. Moreover, the fruits of it from which profits are made, viz., the corn and the cattle, exists corporeally before our eyes, and may be handled and measured. It is by the exchange of these corporeal products for other products and services that we obtain the enjoyment of the property in land.

But we shall now proceed to shew the analogy between this standard case of Value, and other immense classes of cases. We shall first deal with a class of cases in which the source or instrument of the profit is corporeal, like the land. But we shall spunge out the materiality or corporiety, of what is analogous to the produce of the land, namely, the service performed by the instrument, and which brings in the profits, or the instrument, as corn and cattle bring in the profits of land. And we shall call upon our readers to believe in the real existence of these profit-producing incorporeal elements just as much as in the existence of the material corn and cattle.

We have thus obtained two cases of Capital and Produce. The first, in which the Capital and the Produce are both material; the second, in which the materiality of the Capital remains, but the Produce is immaterial. But in either case, each are Economic Elements. We shall also find that there are two other cases, correlative to the two first; namely, a third one, in which the Capital or source of Produce is immaterial, and the Produce material; and, lastly, we shall spunge out the corporiety both of the Capital and the Produce. And we shall call upon our readers to believe in the real existence of these incorporeal sources of revenue, or this incorporeal capital, producing incorporeal entities, or elements, which are exchanged for corporeal profits, and which have as real an existence as much as the land, and the corn and cattle. And this incorporeal capital and its incorporeal produce may be measured and valued with as much certainty as any material article whatever. And when we have surveyed all these kinds of property, we shall be able to form some estimate of the magnitude of property in this country, and the domain of Economics.

As an example of the first case of this latter species of property, we shall instance Railways and Canals. It is perfectly clear that what we may call the source or instrument of the annuity, analogous to the land, namely, the railroad, or the canal, formed and maintained at a vast expense, is corporeal and visible like the land. But is the service which the railroad or canal is capable of rendering, and which produces, or *draws forth*, the profits, corporeal? Whence do the profits of the railroad or canal come? They are given by the public in exchange for the service which the railroad or canal is capable of rendering, namely, the transport

of persons and goods. Something which is purely incorporeal. And yet though this service can neither be *handled* nor *seen*, its value may be *measured*, and is so, with as great certainty as any corporeal element.

The railroad is constructed on the expectation that the public will require and pay for the transit of their persons and goods. This is a mere incorporeal service, and yet it is exchanged for profits just as corn and cattle are, and is as real a source of revenue as they are.

Now it is perfectly clear, that though the railway or canal may have cost a very large sum of money, the value of the shares or stock has no referenee at all to the cost of construction, but is entirely dependent on the value of the custom of the public. The actual line of road and the waterway, are wholly distinct elements from the business which is conducted on them, and they may be separated and divided.

In fact, the business of the railway or the canal may be *separated* from the railway, or canal, itself. And it is perfectly well known that when railroads were first made in England, it was intended and expected that the property in the railway itself, and the property in the business on the railway, should be separated. But it was found that such a separation of powers would probably be dangerous, and it was necessary for the safety of the public, that both the railroad, and the business of working the railroad, should be vested in the same hands.

But in canals the same reasons do not apply. And the property in the canal itself, and the property in the business of working the canal, are almost invariably, we believe, in different hands; the latter merely paying a toll or rent to the former. Now, it is perfectly clear that the canal is corporeal property, and the business of the canal is wholly incorporeal, and yet that business produces a revenue just as much as the corn and cattle from land.

Now in the case of railroads and canals, it is perfectly clear, that it is the incorporeal property which gives value to the corporeal property. It is the custom of the public which gives the whole value to the railroad, or the canal; just as it is the demand of the public for corn and cattle that gives value to the land. If there were no demand for the services of the railway, or canal, they would be worth nothing whatever, whatever sum they may have cost. More than that, they would probably be a nuisance.

Or if the demand of the public for their services were to cease, they would cease to be valuable, however valuable they might once have been. There are many instances in England of canals which were once extremely valuable, having been totally ruined by the competition of railways.

Here, therefore, are manifest instances of the second case we mentioned, where the source or instrument of production or capital, is corporeal, and the product is incorporeal, and yet the whole value of the corporeal capital depends upon the incorporeal product.

And the truth of the great fundamental law we laid down above is indisputable. *It is demand, or consumption, and not labour, that gives value to production.*

In the cases we have just mentioned, the outlay of capital in forming the instrument which is to render the service is so great, that the profit is often considered as little more than profit on the sum spent on the instrument. And in these cases we may consider without any violent metaphor that the instrument itself produces the service. Because, though no doubt there is human labour employed in driving engines, &c., and men and horses on the barges and canals, so also there is a great deal of human labour employed in growing corn, but yet we consider corn as the produce of the earth, rather than of the labour of men, because, after all, the earth is the predominating element in the production of corn, and the labour of man is subservient to it. So also in railroads and canals, they are in a similar way the predominating elements, and the labour of men and horses is subservient to them. In each of these, we think, it will be acknowledged that the corporeal element is primary, and labour, though indispensable, is secondary. But there are a great many other trading companies, in which the importance of the corporeal element constantly diminishes, and the importance of the human element constantly increases, till at last the corporeal element sinks altogether into insignificance, and is only incidental, and is only present in consequence of the necessity of men to have some place to rest upon. But the actual business is wholly human.

Thus in great public trading companies, like banks, and insurance companies, the corporeal instrument in which the business is carried on, is altogether subordinate to the nature of the business carried on. In a great bank or insurance company, the value of

the actual building is a mere fraction of the capital. The value of the shares is entirely regulated by the value of the business, which is a purely incorporeal entity. The value of the shares in the London and Westminster Bank does not in any way depend upon the value of the banking house, nor even upon the quantity of money paid in, or original capital; that only forms a limit below which it would not sink. But it depends upon the gigantic business created by the skill of the managers of the company. And can this be seen or handled, or is it a corporeal matter? Certainly not. It is purely incorporeal. But yet it may be MEASURED in value as accurately as a hundred-weight of cheese, and may be transferred in just the same way.

Now, what does the value of the shares in these immense companies consist in? It is the RIGHT to receive and participate in the future profits of the business. An incorporeal right in an incorporeal entity.

It might perhaps seem to some persons, that the stock, or shares, in a bank were identical with, and *represented*, or were one property with the very money paid in actual capital. Thus if the money paid in as the capital of the bank were £1,000,000, and an equal amount of shares created and given in exchange for this money it might perhaps seem to some that these shares were ONE property with the actual money. This, however, is a most important error. In the first place, it is clear that if the shares were merely *one* property with the actual capital, they never could exceed it in value. For if a man has merely the right to receive back the identical quantity of money he has paid in, why of course the share cannot exceed it in value.

But when a shareholder pays in money to form the capital of the bank, the property in it is entirely gone from him, in his individual capacity. The property in the money passes to the corporation, which is a distinct entity from its individual members. When, then, the shareholder transfers the property in the money to the corporation, he receives in return a share. And what is a share? Is it an individual right to part of the original capital? Certainly not. Except in the extreme case of the dissolution of the company, a shareholder has no right to demand back any of the original capital. What then is the share?—It is the RIGHT to a certain portion of the *profits* to be made by the business of the company. The shareholder gives the property in his money

to the company, and he receives in return the *right of sharing the future profits.*

Now it must be perfectly clear beyond dispute, that the money paid in, and the right to receive the future profits of trading, are two separate and independent properties. Hence the capital of the company and the shares in the company are two separate and distinct properties. And it is perfectly possible that the capital of the company may be entirely lost and dissipated, and yet the shares be of immense value.

In the first place the money capital may have been converted into other things, which are wholly useless and valueless if divided or broken up. The money capital of a railroad company has been converted into embankments and drains, and tunnels and bridges, and station houses. What is the value of these things to sell independently? If the demand for a railway were to cease, the original capital would be found to be almost entirely dissipated and sunk. In the case of a bank it would be different, because there the capital, supposing it not to have been lost in business, remains actually in the form of money, and that can be divided among the shareholders in the case of a dissolution. But even in that case the same rule applies to a certain extent. There are many banks whose stock has risen 200 per cent. above the value of the money originally paid in. If such a bank were suddenly dissolved and the original capital paid in divided among the shareholders, would they receive in money the value of the shares of the bank as they stood before the dissolution? Certainly not.

And this very clearly shews that the shares in a Bank may be of great value, and yet the actual capital gone. The value of the shares depends, as we have said, on the profits of the business established by the Bank. Now in establishing such a business the Bank may lose money, and yet after having lost money it may establish a sound and flourishing business, and that gives a real value to the shares, wholly independent of the money originally paid in.

Let us take a very simple case. The sum actually paid on the shares of the London and Westminster Bank at the present time is £20, and the total paid up is £2,000,000. But the actual market price of the shares is £78, hence the total value of the shares is £7,800,000. That is, the property of the shareholders is £7,800,000. But suppose the Bank were dissolved to-morrow

and the capital divided among the shareholders, do they believe that they would actually receive £7,800,000 in money? They do not suppose any such thing. They know perfectly well that there is an actual deficiency of £5,800,000, to make the capital equal in value to the shares. And yet the shares have a real value, though there is no money to represent them. It is perfectly clear that that Bank is just in the same position as regards the shares, as if it had originally £7,800,000 of money paid in, and had *lost* £5,200,000 in establishing its present business.

Thus the money paid in as capital is analogous to the land, or to the railway, or the canal; the stock represents the value of the business generated by the skill of the traders,—two distinct things.

The shares bear to the capital paid in the same relation that the value of land does to the land itself. The one is the source or the instrument of the annuity, the other is the annuity itself.

It is the same relation as a ship bears to the profits to be made by trading with it, which are manifestly distinct.

Now the cases of a Bank, or Insurance Company, to which the same arguments obviously apply, and a ship, afford us some considerations worth notice.

When we say that the Capital, or Source of income, is a distinct and separate property from the income itself, many persons, looking to the cases of a railway or land, might say that it is the value of the produce which gives the value to the railway and to the land, and if the income were to cease, the capital would be worth nothing, and that therefore they are but *one* property. This argument has some degree of plausibility, because it does apply in appearance to those particular cases, and yet it is not true generally. In the case of railways, the original money capital has been converted into something which has no general exchangeable value. A railroad has no value except as a railroad. Should the railroad not pay in one place, it is not possible to convert it into some other property, or to transport it to another place where it would pay better. The railroad therefore has value in that particular place only, or it has none at all. But the case where the original capital remains in the form of money, which is universally exchangeable, or is converted into something which is again exchangeable, or convertible, is different. Thus the Capital of a Bank, or Insurance Company, remains actually

in the form of money, supposing no losses in business to occur, or it is exchanged for something, which can be reconverted into money, as bills of exchange, the funds, &c. If the business of the bank, or insurance company, should not succeed, and therefore the profits be worth nothing, the capital may still be invested in something else, and remains intact. Here it is quite evident that the original money paid in as capital, and the profits arising from trading, are two distinct properties.

So in a Shipping Company. The original capital in money is converted into ships. If the company should not succeed and make no profits, still the actual ships have value and may be sold, and succeed in another trade. And here it is quite clear that the ships are separate and independent property, distinct from the profits.

Hence we obtain this general law,—

That the Capital, or instrument, or the source of profit, is a distinct and separate property, from the profits made by it.

In some cases the value of the capital may remain, and the value of the profits may remain.

In other cases the value of the profits may remain, while the value of the capital vanishes.

In other cases the value of the capital may remain, while the value of the profits vanishes.

In other cases the value of the profits and the value of the capital may vanish together.

No one accustomed to mathematical reasoning will have the slightest difficulty in comprehending this.

Now, the point we have been aiming at all this time, and we think it is satisfactorily shewn, is this, that shares in public companies are separate and independent property. And they are purely of an incorporeal nature. For we need hardly say that the actual piece of paper on which the writing or certificate is, is merely the *evidence* of the right, which might exist without any material evidence at all.

Here then is incorporeal property, which is not embodied in any matter, which may be transferred from person to person just as much as material property, and it is really existing property as much as gold and silver, and is a portion of public wealth.

Even those Economists who have admitted the existence of incorporeal elements in Economics, have, with few exceptions,

confined their remarks to qualities of the person, or mind, which produce a revenue, but which are fixed and inherent in the person, and of which he cannot divest himself. These are the only immaterial products which M. Baudrillart, for example, contemplates, when he denies the admission of immaterial products into Economics, and remarks as one reason for doing so that they cannot be exchanged. Moreover, it is commonly said, that incorporeal elements perish in the using. But here we have shewn the existence of a stupendous mass of incorporeal property of a wholly different nature from that contemplated by Malthus, or M. Baudrillert. The incorporeal property we have been considering is as permanent, and enduring, as capable of perpetual existence, as the land itself, or any material product. What is there to prevent the Bank of England, or the London and Westminster Bank, enduring as long as the land of England itself? Why should not shares in them, a purely incorporeal property, exist as well 1,000 years hence, as well as to-day? There is no principle of decay in them. Still more, is there not every probability of the shares in the London and North Western Railway enduring as long as this country itself? No doubt there is the contingency even of the Bank of England failing, or being destroyed, but that is only an accident, and not necessary. Moreover, this incorporeal property is capable of being transferred from hand to hand, or from person to person, just as easily as any material product. A man can denude himself of the property in these shares, or in a copyright, just as easily as of the property in a watch. And Economists, in treating of property, and in framing a definition of wealth, have wholly omitted all notice of this enormous mass of property. One of the objections against admitting incorporeal elements into Economics is that it cannot be valued. We reply that they not only can, but are, valued with as great a precision as material products.

These considerations also confirm the necessity of expelling the limitation of "the result of past human labour" from the definition of capital, as we have already shewn. When a man invests money in the shares of the Bank of England, those shares become his capital. The money he bought them with may have been the result of past labour, but are the shares he purchased the result of past labour? Certainly not; they are the expectation of profits to be derived from future labour, or industry. Yet, as

anything which produces a revenue is capital, they become capital to him.

The consideration of the constitution of these commercial Companies throws a clear light on the nature of the Funds. When a man buys an estate in land he has in himself the right to the land and the right to the profits of the land. When a single person is a banker or makes a railroad the case is similar; but when a Company founds a bank, or makes a railroad, the case is different: though the operations are the same, the interests are separated between the Company and its individual members.

When the members pay their contributions to the Company, they lose all individual property in them, which is gone to the Company in its corporate character.

The Company states the amount it receives as a Debt or Liability to its individual members, and gives them certificates called shares, which entitles each one to share in the profits earned by the Company in the proportion of the quota he has contributed to the capital.

But the Company must invest the sums it receives from its members in buildings, furniture, &c., or, in the case of a railway, in land, and the embankments, tunnels, rails, &c., necessary for carrying on its business.

Hence it states the amount it receives from its members as a Debt or Liability, which is called Capital, and the building, the furniture, the railway, and the actual cash it has, as assets; as any one may see on looking at the accounts of any Joint Stock Bank or Railway Company.

What appears then as "Capital" in their accounts is nothing more than a Debt upon which the Company pays as interest to its members the profits earned by its business.

Hence the Shares in a Commercial Company are nothing but an abstract Right to a certain portion of the profits; they are thus exactly similar to a Bill of Exchange or the Funds; only in these latter two cases there is a person who is bound to make the payment, therefore they are Rights of Obligation: in the case of the Shares, there are no particular persons who are bound to use the Railway or to deal with the Bank; it is only expected that some persons will do so: hence the Shares are Rights of Expectation.

Now it is easily seen that the Funds are property precisely

analogous to the Share Capital of a Joint Stock Bank or a Railway.

The nation in its corporate capacity wants some great public work done. It therefore borrows contributions from its individual members, for which it agrees to pay a fixed annual interest. This constitutes the Capital of the debt; and the fundholders are exactly analogous to the Shareholders of a Company. The nation then with the money subscribed, builds ships, hires soldiers, makes a railway or what not, and these are the national assets: and as the nation is supposed to be benefited by the expenditure it pays a fixed sum in taxation.

Those, therefore, who admit the Share Capital of a Joint Stock Bank or Railway to be wealth, must equally admit the Funds to be wealth, because they are exactly analogous in their nature.

We have already observed that as there is a corn market, a meat market, a fish market, a poultry market, and many others, so there is a great Debt market, which is the Royal Exchange. So also there is a great market for the sale and exchange of the species of Incorporeal Property consisting of the public funds and shares in Commercial Companies, which is called the Stock Exchange. This is a market exclusively for the buying and selling Stocks and Shares, British and Foreign, a species of property which now amounts to many thousands of millions of money: and yet which is entirely ignored in books which profess to treat of Economics.

The value of this species of property is an excellent example to shew the fallacy of the doctrine that Value depends upon cost of production. The Value of these shares has absolutely nothing whatever to do with cost of production; it depends upon the annual profits payable on the shares: and whether the value of the shares exceed or falls below par, entirely depends upon the annual profits and the general average rate of interest. The most striking instance that we are aware of, of the difference between the cost of the capital and the value of the shares is the New River Company. When Sir Hugh Middleton and his sagacious co-adventurers, in the reign of James I. constructed this canal, so little were the blessings of pure water understood by the citizens of London, that the patriotic projector was ruined, and obliged to sell his shares. However, the demand for water gradually grew, and with

it the value of the shares, till ultimately a single share of £100 was at one time worth £20,000, and was considered a good dowry for the daughter of a wealthy city merchant. The value of all property of the form of an Annuity is also greatly influenced by the average rate of interest: for if the average rate of interest be three per cent. an annuity will sell for thirty-three years' purchase: if the average rate of interest were ten per cent. the same annuity would only sell for ten years' purchase. And what has the value of such an Annuity to do with "quantity of labour" or "cost of production"?

25. We must now consider some other species of Incorporeal Property.

In former ages, when people had scarcely emerged from barbarism, nothing was considered as property but *land*, which was solid and immoveable. As they became more civilized, and their ideas more refined, moveables were admitted to take rank as property: but still no property was held in regard but what was sensible to the eye and tangible to the hand. In process of time, as refinement increased, men began to reflect that they had minds, and that their minds might be improved. Accordingly services rendered to the mind began to have value, and to be capable of being estimated in money. The way to render service to the mind is by communicating to it ideas, which convey to it perceptions of what is noble, and just, and true, and elevate the nature of what is really and truly the MAN. When men saw this in its proper aspect, they saw that a person who was capable of rendering services to them in this way should be allowed to have property in his own productions, as well as the producers of material wealth. Hence, they recognised the right of man to have property in IDEAS. The law which gives men property in their own ideas is called the law of *Copyright* or of *Patents*.

Just as the mind of man is admitted to be of a much higher nature than his body, so is the service rendered to his mind of a much higher nature than one rendered to his body. Hence, ideas are a much loftier species of property than material wealth. True ideas are the foundation of good government, and of the happiness and welfare of the whole human race, both here and hereafter; and it should be the object of every man to gather true ideas wherever and whenever he can, and follow them in practice. True ideas

are the riches of the mind—riches which neither moths can devour, nor rust corrode, which do not make themselves wings and fly away from us as an eagle, but which bear us like an eagle towards heaven—riches which some would have us believe we can take beyond the grave. And they are preserved and propagated in books "exempted from the wrong of time, and capable of perpetual renovation. Neither are they fitly to be called images, because they generate still, and cast their seeds into the minds of others, provoking and causing infinite actions and opinions in succeeding ages: so that if the invention of the ship was thought so noble, which carrieth riches and commodities from place to place, and consociateth the most remote regions in participation of their fruits, how much more are letters to be magnified, which, as ships, pass through the vast seas of time, and make ages so distant to participate in the wisdom, and illumination, and inventions, the one of the other."[1]

26. There is a peculiarity about the law of copyright and patents, which is worth noticing. No man can have property in a general truth, or a principle, but only in a particular demonstration of the truth, or an application of the principle. No one can have a patent for a *discovery*, but only for an *invention*. As soon as a general principle is discovered, it becomes universal property, and every one can appropriate to himself any new demonstration or application of it he can devise. No man can appropriate to himself a scientific truth, nor can he have a patent for a principle; thus, he cannot have a patent for the general principle of the use of steam, or air, or electricity as a motive power, but only some particular form of its application.

27. Copyright, like the other species of Incorporeal Property, is an example of the truth of the Roman doctrine that Rights are included under the term Wealth. Every one knows that the various Copyrights in the country form a property of enormous value, and yet Whately is the only Economist in this country that we are aware of, who seems to be aware of their existence. He says[2]—"Since the popular use of the term Wealth is not always very precise, and since it may require just in the outset some

[1] *Bacon—Advancement of Learning.*

[2] *Lectures on Political Economy, p.* 5.

degree of attention to avoid being confused by contemplating the very same thing as being, or not being, an article of wealth, according to circumstances, I think it for this reason more convenient on the whole to describe Political Economy as concerned universally, and exclusively, about *exchanges*.

"It was once proposed, indeed, to designate it the 'Philosophy of Commerce'; but this, though etymologically quite unexceptionable, being indeed coincident with the description just given, is open to the objection, that the word Commerce has been in popular use arbitrarily limited to one class of exchanges.

"The only difficulty I can foresee, as attendant on the language I have now been using, is one which vanishes so readily on a moment's reflection, as to be hardly worth mentioning. In many cases, where an exchange really takes place, the fact is liable (until the attention is drawn to it) to be overlooked, in consequence of our not seeing any transfer from hand to hand of a material object. For instance, when the copyright of a book is sold to a bookseller, the article transferred is not the mere paper covered with writing, but the exclusive PRIVILEGE of printing and publishing. It is plain, however, on a moment's thought, that the transaction is as real an exchange as that which takes place between the bookseller and his customers, who buy copies of the work. The payment of rent for land is a transaction of a similar kind: for though the land itself is a material object, it is not this that is parted with to the tenant, but the RIGHT to till it, or to make use of it in some other specified manner. Sometimes, for instance, rent is paid for a right of way through another's field; or for liberty to erect a booth during a fair; or to race and exercise horses," &c. And in a note to the part of this passage relating to the sale of a copyright, Whately says—"This instance, by the way, evinces the impropriety of limiting the term Wealth to *material* objects."

Thus Whately is the first Economist that we are aware of in this country to perceive that a Right, or Privilege, is wealth; although, of course, it is implicitly acknowledged by others when they say that wealth is anything which is exchangeable; for every one knows that abstract rights are the subject of sale. But the whole difficulty is cleared up when we have shewn that, in fact, all Economic quantities are rights.

The value of literary property is a striking example of the

truth of the doctrine that value depends upon demand, and not upon labour. When men began to direct their attention to the primary objects of sale which were material, such as corn, food of all kinds, &c., which are all associated with labour, unreflecting persons jumped at the conclusion that labour is the cause of their value, whereas it is quite clear that the demand for them is the true source of their value.

But what gives value to the Copyright? Most manifestly the demand of the public for the work. By the very force of Nature men feel the necessity for food; and therefore men labour to produce it. But men do not always feel the want of mental food by the force of nature: it requires cultivation and education to make them feel a craving for instruction. Now whether a Copyright has any value or not, does not depend upon the labour of the producer, but upon the demand of the consumer: on the appreciation of the public of his labours, and their demand for them, and unless this exists copyright has no value at all. Without enumerating the great works of the ancients, let us ask whether there was a less quantity of labour in Chaucer and Spenser than in many modern works? Shakespeare, it is true, realised a modest competency by his share in a theatre; but it is certain he never would have earned bread and cheese by the sale of his dramas. Without making invidious comparisons, is the fortune earned by Tennyson, for example, compared to that earned by a Spenser or a Shakespeare, proportional to the quantity of labour in their respective works? There is no department of human industry in which the fallacy of the doctrine that Labour is the cause of value is more conspicuous than in Literary and Scientific work. Where would Newton have been without his fellowship? The writers of the most learned works do not earn the wages of a day labourer: whereas many who write nothing but trashy and ephemeral novels may earn a fortune. And is this from their utility? It manifestly arises from the taste of the public.

Smith says—"The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable": a sentiment in which every one must agree. And what is literary and scientific work? It is pure thought—pure labour. And, seeing that the productions of a man's mind are now recognised to be as truly his own property and the fruits of his industry, as the productions of material wealth, it

is hard to see on what grounds he can be denied the same tenure in one as in the other. Surely no one can deny that a great work in literature is as great a service to a country as a chair, or a table, or a ship; and yet the producer of one is not allowed to derive the same benefit for his services as the other. In the latter case, his right is acknowledged to be perpetual, and he may dispose of it as he pleases, and transmit it to his descendants as long as the thing continues in being; but the rights of the other are only transient, and, after a certain brief period, by the existing law, cease for ever. The merchant who labours for commodities may found a family, and his descendants may be released for ever from the necessity of toil, through the wealth accumulated by their ancestor. But the descendants of the author, who may spend his life in producing a work which may adorn the literature, and be an everlasting possession to his country, may starve in the street, while all the world may appropriate to themselves the profits made by publishing the works of their ancestor.

These things should not be. There can be no just grounds pointed out for the distinction: if an author's right in his own works exists at all, it exists for ever, and cannot be limited to 7, 14, 42, or any finite number of years; and just as the works of a Shakespeare, a Milton, or a Bacon, are a nobler possession for a country to inherit than the most magnificent ship that ever floated on the ocean, so ought the rights of such a benefactor to his country to be preserved and guarded with as jealous care, as those of the other, in any State where the rights of property are held sacred.

McCulloch, in his Commercial Dictionary, argues against the expediency of extending the present term of copyright, 42 years, and while he doubts that any advantage would accrue to authors, he thinks it would be detrimental to the public interests, and he instances a man computing a table of logarithms to five or seven places, and says that if his computations are correct, no improvement can be made upon them, to the extent at least to which they go; and he then asks, if he or his assignees are to be entitled in all time to prevent other persons from publishing similar tables, as an invasion of private property. McCulloch does not seem to be happy in his arguments on the question, and he is still more unfortunate in the instance he has selected to illustrate them, because a table of logarithms is a scientific truth, in

which no one can have copyright, and is an instance of the exception mentioned already. The logarithm of a number or of any other quantity, is a scientific truth or result, which every one is at liberty to calculate for himself in his own way, and if any one were to discover a new method of calculating logarithms, he would undoubtedly be entitled to copyright in that. But no one can have copyright in the actual result, any more than in any other scientific truth. McCulloch further states that in his opinion more injury than benefit would result to literature from making copyright perpetual, but he gives no ground for such an opinion; and the benefit or otherwise to literature is wholly beside the question, which is, what are the *rights* of authors. The copyright of Clarendon's History of the Rebellion is the perpetual property of the University of Oxford, and there is a provision by statute that all copyrights bequeathed to the Universities are perpetual; and we may well ask why the Universities should be permitted to have a perpetual copyright rather than an Author. The Universities evidently deem it an advantage to possess this property, and the question is not the advantage of the public, but the rights of property. It would be an undoubted advantage to the public, and a great benefit to agriculture, if many of the gigantic estates in this country were broken up into smaller ones, and in the hands of more numerous and enterprising owners, but none but a few wild dreamers think of such an invasion of the rights of private property. Now, the right of an author in his own book is just as sacred as his right to his own land, and he ought no more to be deprived of one than the other.

The feeling of the law with respect to literary property is very much that of the French Revolutionary Tribunal. An elderly gentleman had been dispossessed of some old family property by violence during the revolution. He went to the court of justice to get them to expel the intruder. He pleaded that the property had been in his family for many generations, "Oh!" said the judge, "that is the very reason why I shall not give it to you back. Your family has had it so long, that it is right that some one else should have it now!!" So it is with literary property. The law thinks that 42 years is quite long enough for a man's family to enjoy the right of their own property. It is then some one else's turn to have it. In 1794, a notorious Scotch judge, Lord Braxfield, had no higher term to call men who held nothing but

personal property than "rabble." The sentiments of the owners of material wealth towards authors is somewhat tinged with the same feeling. They meet with little sympathy from society in general.

Lord Macaulay, whose views on the proper duration of Copyright, were embodied in the present Act, argued vehemently against Copyright as an odious monopoly, as bad as those which Elizabeth was compelled to abolish by her Parliament[1]—"Why should we not revive all those old monopolies which, in Elizabeth's reign, galled our fathers so severely that, maddened by intolerable wrong, they opposed to their sovereign a resistance before which her haughty spirit quailed for the first and the last time? Was it the cheapness and excellence of commodities that then so violently stirred the indignation of the English people? I believe, sir, that I may safely take it for granted that the effect of monopoly generally is to make articles scarce, to make them dear, and to make them bad. And I may with equal safety challenge my honorable friend to find out any distinction between copyright and other privileges of the same kind; any reason why a monopoly of books should produce an effect directly the reverse of that which was produced by the East India Company's monopoly of tea, or Lord Essex's monopolies of sweet wine." It is needless to point out the transparent fallacy of this argument. To make the cases parallel, it would be necessary to give a person a general monopoly of writing a History of England, for example—to give him a general monopoly of a particular subject. Then, no doubt, the consequences described by Macaulay would follow. We should have very bad histories of England, and so on of every other case. But no one proposes such an absurdity: only if a man bestows great labour and time in composing a particular History of England, or poem, that he should have a property in the fruits of his own labour. Nothing would prevent any other man from writing a better history if he could, and winning the preference of the public. Because Thirlwall has copyright in his History of Greece, how could that prevent Grote also writing his History of Greece, and each having copyright in his own work? Macaulay has, it is true, brought forward other arguments of a more practical nature, which we need not set forth at length, because all the inconveniences he enumerates could very easily be provided for.

[1] *Speeches, p.* 219.

What we object to is his fundamental fallacy in comparing a copyright in a particular work, the fruit of a man's labour, to the odious monopolies of Elizabeth, or to that of the East India Company. And so far from deteriorating the character of literature, we believe that nothing would be a more powerful incentive to an author to produce a work of lasting value than to feel that he could leave it as a permanent property to his family. Besides, as we have already observed, the Universities have perpetual copyright in all works bequeathed to them: and if the Universities have it, why should not the authors?

The progress of public opinion evidently tends in this direction; something was done by the last Act, but the advancing voice of refinement, and the increasing perception of moral right, will probably demand more. Why should a man who devotes his life to carve out an estate in fame, be denied equal rights with one who seeks to agglomerate material wealth? Let us hope that the day is coming when the owners of the ideal ships that sail down the seas of time, freighted with the hoarded treasures of the wisdom, and learning, and worth of successive generations, to illumine the understanding and gladden the hearts of the latest posterity, may enjoy, and transmit to their descendants, the same rights as the owners of the wooden and iron ships, which bring corn and cotton, and whatever else ministers to the material requirements of mankind.'

28. Another form of property in ideas is a PATENT, which is a Right granted by Letters Patent from the Crown for the exclusive making, using, and selling, some commodity: restricted in modern times by statute to a new invention.

Formerly, indeed, patents were granted for much more extensive monopolies. Some of our earlier kings, to eke out the scanty revenues granted them by Parliament, in the plenitude of their prerogative, sold to private persons the exclusive right of importing or dealing in certain commodities. Edward III. granted a monopoly to John Peach of selling sweet wines. For this Peach was arraigned in Parliament, and after a great debate the patent was adjudged void, and cancelled before his face, because he had exacted 3s. 6d. a tun for wine. He was committed to prison until he had made restitution of all he had taken, and further ordered to pay a fine of £500 to the King.

The revenues granted to Elizabeth were very sparing. From

her temporal and spiritual Parliaments together, she only received about £65,000 a year. Accordingly, to increase this income, about the 17th year of her reign she began to revive the old system of granting patents for trade monopolies. These became so obnoxious and oppressive that strong remonstrances were made in the Parliament of 1597. These, however, produced very little effect; and became more numerous and oppressive than ever. At last, in the Parliament of 1601, a stern and fierce onslaught on these monopolies was organized. A list of them, avowedly imperfect, was read in the House, and they included salt, currants, iron, powder, cards, calfskins, felts, poledavies (a kind of canvas), ox shinbones, hair-oil, lists of cloth, potash, aniseed, vinegar, sea coal, steel, aqua vitæ, brushes, pots, bottles, saltpetre, lead, Latin grammars, oil, calamine stone, oil of blubber, glasses, dice, paper, starch, tin, sulphur, new drapery, dried pilchards, the exportation of iron, horn, beer, and leather, the importation of Spanish wool and Irish linen. A member asked if bread was not among the number. Some members boldly called the monopolists "bloodsuckers of the Commonwealth." The price of salt had been raised from 16d. to 14s. the bushel. One member said that the monopolies of salt cost the towns of Lyme, Boston, and Hull, £3,000 a year. Bacon, Fleming, and Cecil, vapoured about the prerogative of the Crown, which was something so divine, that it was neither to be examined, canvassed, nor disputed. But the House was not to be terrified with these threats. Cecil acknowledged that in all his parliamentary experience he had never seen such a commotion in the House. The Queen, however, seeing that matters were becoming serious, with that true discernment and tact which were fatally deficient in the next race of sovereigns, thanked the House for its care of the public weal, and expressed the warmest indignation at the abuses of her grants which had been brought to her knowledge, and promised that some should be immediately repealed, some suspended, and none should take effect until they had been examined in a Court of Law. Cecil very soon changed his tone, and said he would have all men know that it is no jesting with a Court of Parliament. The House was delighted; a member said that the Queen's message was a gospel, for if ever the glad tidings came to the heart of a nation, they came now. And the matter ended in mutual congratulations between the Queen and the House.

But the snake was scotched, not killed. No sooner was the great Queen laid in her grave, and the sceptre of the Plantagenets and the Tudors passed away to a drivelling buffoon, than the abuse of monopolies flourished again in more rank luxuriance than ever. At length, after several remonstrances of Parliament had proved ineffectual, the Statute of Monopolies was passed, 21 James I., c. 3, that all monopolies of trade are contrary to the fundamental laws of the realm : and they were forbidden in future, except only that the Crown was empowered to grant letters patent for a period not exceeding twenty-one years to the first and true inventors of any new manufactures within the realm, which were not used by any one else at the time of granting the letters patent. And this principle still remains good, with some modifications.

This kind of Right, though usually classed along with Copyright, is surrounded with far greater difficulties; and its expediency is a more disputable point than that of Copyright.

It might be said that as each is the fruit of a man's own labour, he should be entitled to equal property in them. This argument, though somewhat specious, does not hold. No two persons working on the same literary work independently ever produce the same ideas. It would be a very remarkable circumstance that two independent persons should ever hit on exactly the same line of poetry, or construct a single sentence of moderate length exactly the same, word for word. It would be absolutely incredible that two persons writing independently should ever compose ten consecutive lines of poetry, or write half a page of prose, word for word the same. Even, therefore, if they chose the same subject for a poem, a drama, a history, the work of each would be absolutely independent. But when many persons' minds are bent on Science, or Invention, the case is different: different persons thinking independently constantly hit upon the same ideas. It has often been remarked that if the greatest names in Science had never lived, some one else would have hit upon their discoveries.

No man, as we have before observed, can have a patent for a principle, or a copyright in a great scientific discovery. No one else may reprint such a work *verbatim*. But as soon as a great scientific discovery is made, every one may express it in his own way in a different form.

A literary work is more a man's individual property than a work

of science. If Shakespeare had not lived, there is no reason to suppose that we should ever have had *Macbeth, Hamlet,* or *Othello.* But if Newton had not lived, there is every reason to suppose that by this time we should have had the Theory of Gravity. In science one man's discoveries are based upon the labours of his predecessors; and in turn are the basis of the labours of his successors. He therefore adopts and uses the common property of mankind, and in return his discoveries become common property: and then there is constant progress. But it is not so in literature: there is no such constant progress.

It is with inventions as with science. In this inventive age, when so many men's minds are turned towards the same subjects, they constantly hit upon the same invention. Inventions grow out of one another; and in the construction of some complicated machine, an inventor walks among traps and pitfalls at every step, and must carefully beware lest some one else has not already hit upon the same idea, and got a patent for it. The practical evils of this are so great, that many able persons, including many distinguished inventors, have strenuously argued in favour of the total abolition of patents. This, however, opens a very wide question, which this is not the place to discuss. We have here only to explain the nature of Patents as Incorporeal Property, not to argue about their expediency.

29. Another species of Incorporeal Property is the GOODWILL of a business. When a person has established a reputation in any commercial way the expectation of future profits is a valuable property which he may sell when he retires from business. This is a species of property quite separate from the house or shop, or the goods actually in the shop: and is a matter of sale to his successor. This property is fully recognised by Courts of Law as part of the fruits of accumulated industry, just as much as any material product. But as it is always fixed to a particular place it may be called Incorporeal Real Property.

The Goodwill of a business is usually reckoned, we believe, at about two years' profits: it is evident that this is a species of property of immense magnitude; and yet no Economist in this country seems aware of its existence.

30. But not only may a dealer in material products create a business by his industry and labour, which may be sold, but

dealers in immaterial products, such as medical men, solicitors, &c., may do the same, and it is capable of being sold, and is also Incorporeal Property. This is usually called a PRACTICE, in French a *clientelle*. If a young doctor or solicitor wishes to start in business, it is very usual for him to buy a practice, and, of course, such a purchase is an investment of Capital.

31. Other kinds of Incorporeal Property are TOLLS and FERRIES, which are the Rights of receiving the payments made for using bridges, roads, and ferries. These are so well known that we need not dwell upon them.

We may mention as a last species of Incorporeal Property, not below the dignity of Economics, a street crossing. These are made the subject of regular property by the poorer classes, just as much as landed estates, and they are bequeathed from one to the other, and are made the subject of marriage portions. There cannot be a plainer example of the *emptio spei* than these street crossings, as no one is compelled to pay toll for them: their receipts depend purely upon the charitable feelings of the passengers: and yet they are capital to their occupiers.

CHAPTER XV.

THE THEORY OF THE EXCHANGES.

On Mill's doctrine of International Trade and International Values.

1. We have now come in the natural order of the subject to the exposition of the Exchanges, but, as usual, we are impeded in our course by the unphilosophical doctrines of Mill, to which we must give some attention. Nor will they detain us long, for a very few general considerations will suffice to brush them away.

Mill says[1]—"Does the law that permanent value is proportioned to cost of production, hold good between commodities produced in *distant* places, as it does between those produced in *adjacent* places?

"We shall find that it does not."

Again[2]—"The value of commodities produced at the same place, or in places sufficiently adjacent for capital to move freely between them—let us say for simplicity, if commodities produced in the same country—depend (temporary fluctuations apart) upon their cost of production. But the value of a commodity brought from a distant place, especially from a foreign country, does not depend on its cost of production in the place from whence it comes; on what then does it depend? The value of a thing in any place depends on the *cost of its acquisition* in that place, which, in the case of an imported article, means the cost of production of the thing which is expected to pay for it. . . . .

"If, then, England imports wine from Spain, giving for every pipe of wine a bale of cloth, the exchange value of a pipe of wine in England will not depend upon what the production of the wine may have cost in Spain, but upon what the production of the cloth has cost in England. Though the wine may have cost in Spain the equivalent of only ten days' labour, yet, if the cloth costs in England twenty days' labour, the wine, when brought to England, will exchange for the produce of twenty days' English labour, *plus*

[1] *Principles of Political Economy, B. III., ch.* 17. [2] *Ibid., ch.* 18.

the cost of carriage, including the usual profit on the importer's capital during the time it is locked up, and withheld from other employment.

"The value, then, in any country, of a foreign commodity, depends on the *quantity of home produce* which must be given to the foreign country in exchange for it. In other words, the values of foreign commodities depend on the terms of international exchange. What then do these depend upon? What is it which in the case supposed, causes a pipe of wine from Spain to be exchanged with England for exactly that quantity of cloth? We have seen that it is not their cost of production. If the cloth and the wine were both made in Spain, they would exchange at their cost of production in Spain; if they were both made in England, they would exchange at their cost of production in England; but all the cloth being made in England, and all the wine in Spain, they are in circumstances to which we have already determined that the law of cost of production is not applicable. We must accordingly, as we have done before in a similar embarrassment, fall back upon an antecedent law, that of supply and demand, and in this we shall again find the solution of our difficulty."

These extracts are sufficient to give an idea of Mill's fundamental doctrines on the subject.

Now to examine their application, we must separate these doctrines, because distant places need not be foreign places, and foreign places need not be distant places.

London and Melbourne are distant places, but they are not foreign places. Lille and Ghent are foreign places, but they are not distant places.

Now Mill acknowledges that Economics is to be treated in the same manner as a physical science; he himself says that the backward state of this science, among the other moral sciences, can only be remedied by adapting the methods of generalisation followed in physical science to it. He himself appeals to physical science, and to physical science he shall go.

Mill affirms that the law which governs the value of commodities exchanged between near places is fundamentally different from the law which governs the value of commodities exchanged between distant places. That if commodities be exchanged between London and Southwark, their values are governed by cost of production; if between London and Melbourne, by Supply and Demand.

Now, if this be the case, at what precise point between Southwark and Melbourne does this difference begin? At what exact spot does the Law of Value change from Cost of Production into Supply and Demand? Is it in the chops of the Channel? Is it at the Equator? Is it at the Cape of Good Hope?

Such a doctrine as this is a most glaring violation of the *Law of Continuity*, one of the fundamental principles of Natural Philosophy, and is exactly analogous to the Aristotelian doctrine of motion. "The Aristotelians[1] made a distinction between motions according to nature (as that of a body falling vertically downward) and motions contrary to nature (as that of a body moving along a horizontal plane), the former they held became naturally quicker and quicker, the latter naturally slower and slower. But to this it might be replied that a horizontal line may pass, by gradual motion, through various inclined positions, to a vertical position, and thus the retarded motion may pass into the accelerated, and hence there must be some inclined plane on which the motion downwards is naturally uniform; which is false, and therefore the distinction of such kinds of motion is unfounded."

Now it is quite clear that Mill's doctrine of Value between near places and distant places is exactly analogous to this Aristotelian doctrine of motion. Because if it be true, there must be some precise spot in the ocean, one inch on the Southwark side of which Value depends upon Cost of Production, and one inch on the Melbourne side of it, Value depends upon Supply and Demand. And at the precise spot in question on what does Value depend?

The very statement of such a doctrine is its own refutation; and it is discreditable to this age and this country that a book setting forth such doctrines should be tolerated for an instant.

Newton used the Law of Continuity to suggest, but not to prove, the doctrine of universal gravitation. Let, he said, a terrestrial body be carried as high as the moon, will it not still fall to the earth? And does not the moon fall by the same force.[2]

Now we reverse the process of Newton. Mill admits that the law of Supply and Demand governs the value of things which come from distant places. Now let us diminish the distance gradually by insensible degrees, until the places become near, and how can the law of Supply and Demand change into any other?

[1] *Whewell. Novum Org. Renov., p.* 221.

[2] *Whewell. Nov. Org. Ren., p.* 221. *Newton Principia, B. III., prop.* 6

Thus Mill is judged and condemned by the very laws to which he appeals.

2. Again, says Mill, the same change takes place in exchanges between foreign countries. But this, if possible, is a still more glaring absurdity; because if the two countries coalesce and become one, one law of Value must immediately change into the other. England and Scotland were once foreign countries to each other, therefore the Values of commodities exchanged between them depended upon the Law of Supply and Demand. But in process of time England and Scotland became one country, and then the Law of Value between them, at that very instant, changed into Cost of Production. Italy was until very recently divided into separate states. According to Mill, Value then depended upon Supply and Demand, but the various petty states of Italy coalesced, and became one state. According to Mill, the Law of Value at the same instant underwent a fundamental change, and became that of Cost of Production. Thus the unification of Italy caused a fundamental change of the Law of Value. It would be just as rational to say that the unification of Italy caused a fundamental change in the Law of Gravitation; or in the principles of Astronomy; or in the laws of Optics.

3. Now let us apply Mill's doctrine to another case, to an exchange between Lille and Ghent, for example. What is the Law of Value between such places? They are near places; therefore, according to Mill, Value depends upon Cost of Production; but they are also foreign places; therefore, according to the same Mill, Value depends upon Supply and Demand. Now, in such a case, what is the bewildered student to believe? But if France were to absorb Belgium, the Law of Value would instantly change from Supply and Demand to Cost of Production!

4. Mill's doctrine that because the Law of Cost of Production fails in exchanges between distant places, we must resort to the Law of Supply and Demand, is as gross an absurdity as if a person were to write a book on Optics, and to say in a certain class of phenomena—here the Emission theory of Light fails us, and therefore we must resort to the Undulatory theory. The Laws of Physical Science shew us that there can be only one general theory of Light, and only one general theory of Value.

5. The fundamental fallacy of the whole Ricardo-Mill system of Economics is clearly seen in these extracts, for Mill says that the value of a pipe of wine in England will depend on the cost of production of the cloth which purchases it, that the value of a foreign commodity in any country depends on the *quantity of home produce* which must be given in exchange for it. The fallacy of this doctrine is manifest. Mill says, for example, that if £100 worth of cloth is exported to Bordeaux, and purchases wine which sells in England for £500, that the value of the wine in England is £100! Can anything be more absurd?

To revert to our previous example of the sailor and the Fijian in a former chapter. The English sailor takes out an axe which cost 2s. 6d. in England, and purchases a pair of shells, which sell for ten guineas in England; Mill maintains that the value of the shells in England is 2s. 6d.!

This is precisely as absurd as to say that if a man spends £1 in producing an article which he can sell for £5, the value of the article is £1!

This is exactly the fallacy of the Ricardian system of Economics. The very first day Bentham read Ricardo's work, he wrote back to him to say that it was all founded on the fallacy of confounding *Cost* with *Value;* the Value of a thing is not what it has *cost*, but what it will *sell for*.

Now the course of trade in such a case would be this. The English merchant would first consider the price of Bordeaux wine in the English market, and its price in the Bordeaux market, both of which depend upon the Demand and Supply in the respective markets. He would then consider what English articles were suitable for the Bordeaux market, and their prices in each market, which also equally depend upon Supply and Demand. He would then select that article which was cheapest in the English market, and highest in the Bordeaux market. He would export that to Bordeaux, and buy wine with the proceeds; and when the wine was brought to England, his profit would be the difference between the cost of the English article, its freight, &c., to Bordeaux, and the freight, &c., of the wine to England, and the selling price of the wine in England. And, of course, he never would think of estimating the value of the wine by what he gave for it, but by the price he could get for it. And all the various prices of the articles in these transactions are governed

by the Law of Supply and Demand in each case and at all times.

Having thus shewn the unphilosophical nature of the basis of Mill's theory of International Values, and International Trade, we need not examine them any more, nor his alleged Equation of International Demand: the very slightest consideration will shew the absurdity of the whole doctrine. Such things cannot be fundamental laws of Economics, because it is a mere *accident* that countries are foreign to each other. When countries coalesce and become one, what becomes of International Values, and International Trade, and the Equation of International Demand? They simply collapse, and vanish into nothing. Suppose that the idea of the United States of Europe were realised; or suppose that the theory of the old Roman Empire were realised that there could be but one Emperor on earth, to whom all the nations of the earth were subject, what would become of the alleged Equation of International Demand? It would vanish into air! and with it the Ricardo-Mill system of Economics.

It has long ago been observed that for the purpose of trade the whole earth is one nation: and the Laws of Value must be the same in all places, in all times, and between all places, distant or near, foreign or home. Having swept away these absurdities, we now proceed to explain the mechanism of the Exchanges.

ON THE THEORY OF THE EXCHANGES.

1. We have said that when an interchange of like things takes place, such as commodities for commodities, or currency for currency, it is called an exchange. The "Exchanges" is that branch of Economics which treats of the exchange of the money of one country for the money of another, and of the remission of debts from one place to another by paper documents. They are merely an exemplification of the doctrines of Coinage and Credit, which have been so fully explained in the preceding chapters.

2. Next to a universal language, it would be the greatest commercial blessing to all nations, if they could agree to use one uniform measure of value, and the same weights and coins. No small part, nay, we might almost say the chief part, of the

intricacy and subtlety of the subject of exchanges, arises from different nations using different metals as the legal measure of value, and coins of all different denominations and values. If all nations could be brought to a uniformity on these subjects, there would be no more difficulty in understanding the Theory of the Exchanges between them than of those between England and Scotland. The artificial intricacy of the subject of exchanges gives rise to the employment of a considerable amount of labour, which is unprofitable to the community at large, exactly in the same way as a superfluous amount of technicality in a system of law gives rise to a large amount of unnecessary law business. Every one who has travelled abroad knows how detrimental the different exchanges are to his purse, as he passes through the different States. If any one were to take a quantity of money with him abroad, and pass through several different States, like those in Germany, it would soon dwindle away to almost nothing by the repeated operations of exchanging it for the current money of the country he happened to be in at the moment. The profits of the money-changers, as they do not arise out of natural operations, but out of the artificial distinctions in the different coinages, are wholly unprofitable to the community at large; because, in this case it is true, what many people think of real commerce, that the gains of one party are wholly made up of the losses of a number of others; whereas, the test of genuine commerce is, that both parties gain by the very nature of the transaction. It is clear, that the gains of the money-changers are no more additions to the wealth of the community, than the practice of sweating sovereigns in a bag, where the apparent profit is made up of the losses on each coin.

Banking first grew out of the operations of the money-changers, and was first practised by them, but yet banking and money-changing are wholly different in their nature. The latter produces no benefit to society, the necessity for it only arises out of the artificial and unnecessary defects of the commercial regulations of nations. If these were put on a better footing, the whole trade of money-changing would be swept away at a breath. As the want of proper sanitary arrangements often breeds the diseases which cause the necessity for medical men, so it is the imperfection of the monetary system of the world that produces the necessity for money-changers. Banking, on

the contrary, is wholly different in its nature; it is genuine commerce, and, like all genuine commerce, it promotes the interests of both parties, it blesses him that lends and him that borrows, and augments the prosperity and wealth of the community at large. The correction of the imperfect system which gives rise to the necessity of money-changers would be an unmitigated blessing to every nation in the world; the abolition of banking would be the direst blow commerce could receive.

We have observed that, in former times, when there was comparatively little commerce between different countries, the coinage might circulate for a considerable time in a country without very much losing its value, after it had become considerably depreciated from loss of weight.

When these coins, however, are carried to a foreign country, they are of no value beyond their intrinsic weight as bullion. Though the natives of the country it belonged to, from long habit and association of ideas, see in it a certain denomination, and may receive it at its nominal value long after it has lost its legal weight, a foreigner sees in it nothing but so much bullion. When a person takes the coin of one country to another, and purchases the coin of that country with it, he is said to *exchange* it. Now, suppose that the coinage of two countries is of the same metal, and that both of the coinages be of their full legal weight and fineness; then if either of them be taken as a standard, which may be called A, then the number of units, or parts of a unit, of the coinage of the other, which may be called B, which contains precisely the same quantity of pure metal, is called the PAR OF EXCHANGE between the country A and the country B. Thus, if the legal standard of France and England were gold, and the pound be taken as the standard unit of England, the number of the standard units of the French coinage which contained precisely as much pure gold as the English pound, would be the par of exchange between England and France. The French standard is a franc, which is a silver coin. The gold Napoleon is also legal tender, which is twenty francs. Now, there is as nearly as possible one-fourth more pure gold in a sovereign than in a Napoleon; therefore, as the par of exchange is the ratio between these two coins, we might say that 1·25 is the par of exchange between England and France. But, as it is invariably expressed in *francs*, 1·25 Napoleons is equivalent to

25 francs, and hence we may, for the sake of argument, call 25 the par of exchange. Hence, if an English sovereign would exchange for 25 francs in Paris, we should say that the exchange was at par.

Though a worn and depreciated coinage might pass for its full nominal value in its own country, in a foreign country it will evidently only exchange for its actual weight in bullion: hence, if the English coinage of sovereigns became worn and clipped, or much diminished in weight, they would not exchange for so many francs as they would do if they were of full weight; hence, an English sovereign, if taken to Paris whilst the French coinage maintained its full weight, in such a depreciated state, might only exchange for 22 or 20 francs, and this would be called a *fall in the foreign exchanges;* or if an English merchant were bound to pay his creditor in Paris 2,500 francs, he would have to give more than £100 English to purchase them, and the exchange would be said *to be so much per cent. against England,* by the amount of that difference.

It is evident that this adverse state of the exchange would continue so long as the English coinage remained depreciated; but that if it were restored to its legal standard, that restoration would be itself sufficient to restore the exchange to its usual rate. Hence, we see that if any foreign country maintains its coinage of full weight and purity, that a *depreciation of the coinage of England necessarily produces an apparently adverse state of the exchanges, and that a reform of the English coinage is sufficient by itself to restore them to their proper state.*

It is also evident that a depreciation of the coinage, by a debasement of its purity, will produce exactly the same effects. It is also clear, that if the coinage of both countries were equally degraded, the rate of exchange would not be altered between them; and that the rate would vary just in proportion as one was more or less degraded than the other.

Now, as when the coinage of a country has become depreciated either from wear and tear, or a debasement of the standard, the consequence is said sometimes to be a *fall* in the foreign exchanges, and sometimes a *rise* in the foreign exchanges, it is as well to fix clearly what these expressions mean, as it might be thought they are contradictory, when they are not so. They only refer to two different modes of estimating the coinage.

When a depreciated coinage is said to produce a FALL *in the Foreign Exchanges, it means that a given amount of home coinage will purchase a* LESS *amount of foreign coin.*

When a depreciated coinage is said to produce a RISE *in the Foreign Exchanges, it means that a* GREATER *quantity of home coinage is required to purchase a given amount of foreign coin.*

A clear understanding of these expressions will prevent any confusion arising when they are used indiscriminately, as they often are, in discussions on the Exchanges. We shall give a little further on a striking example of the derangement of the foreign exchanges of England owing to the depreciation of the coinage, and their rectification in consequence of the restoration of the English coinage.

3. It is also evident that there can be no true par of exchange between two countries which do not employ the same metal as their legal standard. We have seen, in the preceding chapter, the insuperable objections to employing two metals as legal standards in the same country. Up to a comparatively recent period gold and silver were equally used, and their relative values were fixed by law. This was their legal par of exchange, but we also saw that their market values were constantly varying, and from causes quite beyond the reach of any law; and that it was no more possible to have a fixed price of one in terms of the other, than to have a fixed legal price for corn or other commodity. The very same rule must clearly apply to two countries, one of which uses gold, and the other silver, as the measure of value. Hence, in speaking of the par of exchange between England and France as 25·20, which it usually is, or that £100=2,520 francs, it is only on the assumption that the relative values of gold and silver are fixed, which we know can never occur between any two countries, any more than between the same metals in the same country. The only correct mode of expressing it is, therefore, to say that such is the *usual Rate of Exchange* between the two countries.

In the year 1797, when the Bank of England stopped payment, the House of Lords appointed a Committee to investigate the whole subject. The Committee, among other things, wished to ascertain the par of exchange between London and Hamburg, and they examined several merchants upon the subject, but they

were quite unable to agree among themselves what was the par of exchange between these two places; and the Committee reported that they were unable to come to any satisfactory conclusion on the subject, and in this they were correct. And the very same reasons apply to any other two countries which use different metals as measures of value, as there is not in the nature of things any permanently fixed relation between them. Hence, there cannot be in the nature of things, any fixed par of exchange between England and any country that uses exclusively a silver standard. The most that can be said is, that there is a usual rate of exchange between them; hence, between such countries, it is often totally impossible to decide certainly which way the exchange is, unless the difference exceeds a certain limit. At the time of the foundation of the Bank of England, in 1694, the coinage of England was in such a disgraceful state from the wear and tear of many years, and extensive clipping, that the rate of exchange between London and Hamburg, owing to this circumstance alone, was 25 per cent. against England.

Although, when the currency is in a depreciated state, the exchange will be apparently adverse with those countries which maintain their currency in its standard state, it is quite clear that the exchange, founded upon the commercial operations of the two countries, may be above, below, or at par; and it is a very simple matter to discover its true state, that is, whether it is favorable or the contrary, and the amount of its difference either way. The rate of exchange, which arises out of the state of the currency, is called the NOMINAL EXCHANGE; the rate which arises out of the commercial relations of the country, is called the REAL EXCHANGE. Thus, if we suppose that the exchange on Paris is 2,521 francs for £100 in gold at the Mint price, or when the currency is at its full legal weight, then, if we suppose that, in consequence of the depreciation of the currency, the market price of gold bullion rises to £4 3s. per oz., then the market price of £100 is £106 11s. 7½d. Now, suppose that the exchange on Paris is 23·80, or £100 will purchase 2,380 francs in Paris, then £106 11s. 7½d would be able to purchase 2,536·63 francs. But, as the real par at the Mint price is assumed to be 2,521, it is evident that the difference between these two sums is the extent to which the real exchange is in favour of

London. We can also see the extent to which the exchange is depressed, because £100 at the above exchange will purchase 2,380 francs, whereas they ought to purchase 2,536·63, if they were of full weight; and the difference between these two sums shews the extent by which the nominal exchange is depressed. Hence, we have the following rule—

Find the market price of the sum in London compared to the Mint or money price; multiply the market price so found by the rate of exchange; then, if the result is equal to the par of exchange, the exchange is at par; and if there be a difference, the exchange is favourable, or adverse, according as the difference is above or below the par.

And the depression of the exchange, caused by the depreciation of the currency, is the difference between the sum so expressed in the mint and market prices multiplied by the rate of exchange. In the excellent state in which our currency now is, the question of the nominal exchange is of little importance, but it is impossible to understand the history of the currency in former times without it: and it is essential now with regard to several foreign countries at present which use an inconvertible and depreciated paper currency.

On the Nature of an Exchange.

4. We will now explain the nature of an exchange. Suppose two cities, say London and Edinburgh. Suppose a trader A in London is debtor to a trader B in Edinburgh for a certain sum: suppose also that a trader B^1 in Edinburgh is debtor to A^1 in London for an equal sum. Then, in order to pay their debts, A would have to send the money to B, and B^1 would have to send an equal sum to A^1, thus causing two separate transmissions of bullion between London and Edinburgh, at some expense for freight and insurance.

Now, this settlement of debts may be greatly facilitated, if A in London goes and pays his debt to A^1, and buys from A^1 the debt due to him from B^1, and sends this debt by post to B in Edinburgh. B then goes to B^1 and demands payment from him of his debt due to A. Thus, it is clear that the whole business has been settled by the transmission of the debt, instead of by the

transmission of twice the amount in bullion, and each debtor has paid the debt to the creditor in the same town.

The whole transaction is called an exchange, and it is clear that there must be a debtor and a creditor in each city. In the case given there are *four* parties; but an Exchange is possible with *three* parties. Thus, suppose that A in London owes B in Edinburgh a debt, and B^1 in Edinburgh owes A in London an equal debt. Then it is clear that A may pay B by transferring to him the debt due to himself from B^1. From this, it is seen that *three* parties are indispensable to an "Exchange."

In fact, an Exchange in commerce means simply a transaction in which a debtor pays his creditor by transferring to him a debt due to himself from some one else. Every time a person pays a debt by means of a cheque or bank note, that is an Exchange. It is an example of what is called *Novatio* in Roman Law, because the former debtor is exchanged for a new one.

Two passengers are travelling in an omnibus. The fare is sixpence. One passenger pays the conductor a shilling. The conductor is then indebted to him in sixpence. The other passenger has a sixpence in his hand ready to pay his fare. The conductor, by a nod, tells him to give the sixpence to the first passenger. By this means the conductor's debt is paid, and the whole transaction is an exchange.

We may observe that a consideration of this transaction is sufficient to disprove the popular account that Bills of Exchange and exchange operations were invented by the Jews. A crowd of writers have said that the Jews, having undergone a terrible persecution in France towards the end of the 12th century, invented Bills of Exchange in order to transmit their effects from France to foreign countries. This account, however widely received, is impossible, because it is clear that exchange operations can only arise out of reciprocal debts being due between two places, as they cannot take place unless debtors and creditors of the one reside in the other. To suppose that people could simply remit their money by means of Bills of Exchange, is as absurd as to suppose that a man could send his luggage by the electric telegraph. All that he could do in either case would be to send an *order* to deliver his money, or his luggage, to some one else.

The first thing James II. did after he came to the throne, was to solicit alms from Louis XIV. Louis collected Bills on London to

the amount of five hundred thousand livres, or about £37,500, and sent them to London. That is, he went to the merchants in Paris who had debts due to them by merchants in London, paid them their debts, and so bought their rights against the London merchants. He then sent over these Bills to London, to the French Ambassador, and the London merchants paid the money to him. But Louis could not have done this unless there were already sums due by the merchants of London to the merchants of Paris.

Now, when the debts between London and Edinburgh are equal, it is evident that they may all be discharged by means of such an exchange, without remitting any specie. The exchanges are then said to be at PAR.

Supposing, however, that the debts are unequal, and Edinburgh wishes to send more money to London than it has to receive, it is clear that the demand for bills is greater than the supply; and, as every one would rather send a bill than cash, as it is cheaper to do so, those who had money to send would bid against each other for the bills in the market as for any other merchandise, and the price of them would rise, or a premium would have to be paid for a bill on London.

Now, London is the great centre of commerce. It supplies the rest of the country with foreign merchandise: it is the seat of Government, to which the revenue is remitted from all parts of the country: the great families from all parts of the country go to reside there, and their incomes must be remitted to them there: hence there is almost always a much greater quantity of money seeking to flow from the country to London than the contrary: consequently, the demand for bills on London in the country is greater than the supply, and, therefore, inland bills upon London are always at a premium.

This premium is computed by time. Thus, if a person paid a sum of money into a bank in Edinburgh, in former times, he got a bill payable at 60 days' date in London; or, if he wanted it payable at sight, he had to pay 60 days' interest. This was afterwards reduced to 40 days, and was estimated at about ½ per cent. As communications improved, this was reduced to 20 days, or 5s. per cent. But, in consequence of the still further facilities afforded by railways, the premium is now reduced to 1s. per cent.

Hence, if a person in Edinburgh wishes to have a bill at sight on London, he must pay 1s. per cent., or four days' interest, on it. And this time is also called the *Par of Exchange* between London and Edinburgh. There is a similar premium on bills, or par of exchange, between all other cities in the country on London. This is called Inland Exchange.

The Exchange of the country upon London is said to be against the country and in favour of London. But it must be observed that it is only unfavourable to the *buyers* of bills, or those who wish to *send* money. It is equally favourable to the *sellers* of bills, or those who have to *receive* money.

The exchange is called unfavourable, because, after the settlement of the whole debts between the two places, there remains a sum in cash to be remitted.

It appears from this, that when in any place the demand for bills is greater than the supply, the Exchanges are *adverse* to that place, because it has more money to pay than to receive: when the supply is greater than the demand, the Exchanges are *favourable* to it, because it has more money to receive than to pay.

On Foreign Exchange.

5. The principle of Foreign Exchange is exactly the same as that of Inland Exchange. But there is somewhat more complication in the detail, on account of the different monies of different countries.

In Exchange between two foreign places and of different monies, the money of one place is always taken as fixed, and the Exchange is reckoned in the variable quantities of the money of the other given for it. The former is called the *fixed* or *certain price*, and the latter the *variable* or *uncertain price*.

Thus, between London and Paris, the Exchange is always reckoned by the *variable* sum in francs and cents given for the *fixed* £.

On the contrary, between London and Spain the Exchange is always reckoned by the *variable* sum in pence given for the fixed dollar of Exchange.

When a certain place is taken as a centre, if the fixed price is the money of that place, it is said to *receive* the variable price;

on the contrary, when the money of that place is the variable price, it is said to *give* the variable price.

Thus, at any time, London *receives* from Paris so many francs and cents for the £1 sterling, and London *gives* Spain so many pence for the dollar.

In the quotations of the Rates of Exchange, it is usual to omit the fixed price and name only the variable price, and then that is called the *Rate* or *Course of Exchange.*

One source of perplexity in the Foreign Exchange arises from the circumstance that, in consequence of London *giving* the variable price to some places, and *receiving* it from others, the same state of the exchanges will have to be expressed in opposite language, as we have observed above, in speaking of the expressions used regarding the Foreign Exchanges *rising* or *falling* in consequence of a depreciated currency.

According to *Tate's Modern Cambist,* the following are the present Rates of Exchanges between London and the principal Foreign Cities :—

London receives from

Amsterdam . .	12 3	Florins and Stivers for	£1
Hamburg . .	13 12	Marks and Stivers	—
Paris	25 50	Francs and Cents	—
Frankfort . .	121	Z. V. Florins	10
Vienna . . .	13 70	Florins and Kreuzers	1
Genoa . . .	25 35	Lire and Centesimi	—
Berlin . . .	6 25	Dollars and Silver Gros	—
Milan . . .	25 40	Lire and Cents	—
Leghorn . .	25 50	Do.	—

London gives to

Lisbon . . .	53¼	pence sterling for	1 Milreis
Madrid . . .	50¼	„	1 Hard Dollar
Gibraltar . .	48½	„	1 do.
Naples . . .	39⅝	„	1 Ducat
Palermo . .	119½	„	1 Onza
Venice . . .	47	„	6 Lire Austriache
St. Petersburgh	38¼	„	1 Silver Ruble
Rio Janeiro . .	30	„	1 Milreis
New York . .	47½	„	1 U. S. Dollar
Calcutta . . .	23	„	1 Comp. Rupee

Now, if the exchange of London on Paris is against London, or the demand in London for bills on Paris is greater than the supply, it is clear that the £ sterling will purchase *fewer* francs. Hence, between London and Paris, when the example is adverse to London, the rate or course of exchange will *fall below* par.

On the contrary, when the exchange is favourable to London, that is, the supply is greater than the demand, the Rate of Exchange will *rise above* par.

And the same is manifestly true with respect to all other places *from which* London *receives* the variable price.

But, suppose the Exchange between London and Madrid is against London, or the demand in London for Bills on Madrid is greater than the supply, then London will have to *give more* pence to purchase the Spanish dollar.

Hence, between London and Madrid, when the Exchange is against London, the Rate, or Course of Exchange, will *rise above* par.

On the contrary, when the Exchange is favourable to London, she will have to give *fewer* pence to purchase the Spanish dollar, and, consequently, the Rate of Exchange will *fall below* par.

And the same is manifestly true, with respect to all other places *to which* London *gives* the variable price.

Hence, when the Exchange between London and any other place varies from par, we must always consider whether London gives the variable price to, or receives it from, that place.

The interests also, of the buyers and sellers of bills are always opposite. If the Rate of Exchange is favourable to the one, it is equally unfavourable to the other. The buyers of bills are also called *remitters*, and the sellers are also called *drawers*.

Having now stated the places from which London receives, and those to which it gives, the variable price, we will give a table illustrative of the effects of a depreciated coinage on the foreign exchanges, and of its restoration to par. In 1695 the coinage of England had become greatly deteriorated, owing to clipping and wear and tear. The foreign exchanges were in great disorder. But in 1696 a great re-coinage was undertaken, and the effects of it are exhibited in the following table. The figures denote the Rates of Exchange as paid in coin.

Statement of the Rates on the London Exchange during 1695—1696.

	Amsterdam.	Rotterdam.	Genoa.	Antwerp.	Hamburg.	Cadiz.	Madrid.	Venice.
1695								
April 23	31·2	31·4	59·29	30·11	29·11	56·2	56·1	59·
1696								
January 24.....	31·0	31·2	60·	31·	29·9	60·0	60·	63·
May 2	30·3	30·2	64·	30·	28·8	60·	61·	61·2
July 19	29·3	30·6	65·	29·	..	60·	..	..
July 28	38·7	33·9	58·	33·	32·4	53·	58·	54·
September 29....	36·5	36·7	54·	36·	35·	48·	49·	51·
October 6	36·8	36·10	53·2	35·7	35·8	48·	49·	..
November 6	37·4	37·6	52·2	37·2	36·4	47·	48·	49·
December 16	37·8	37·10	51·	37·8	36·8	46·2	47·	49·

Now, on inspecting this table, we perceive that a great change in the figures took place about July, 1696. Some *rise* very much, others *fall*. Those *from* which London *received* the variable price *rose*; those *to* which London *gave* the variable price, *fell*. Which exactly verifies the doctrine laid down in § 2.

On the Limits of the Variations of the Exchanges.

6. Supposing that while the Exchange between any two places —say London and Paris—is in a state of equilibrium, that is, when the demand and supply of bills in each city is exactly equal, so that they would each have to receive and send the same sum, it should happen that from any cause whatever, no matter what, there should be a desire on any particular day to send more money from one side than it has to receive. Suppose more money has to be sent from London than it has to receive; then those merchants who want to remit money from London will strive to buy bills on Paris in the London markets. But, as the demand is greater than the supply, a competition will spring up to buy the bills that are in the market, and hence the price of them will rise. It is their duty to place the bullion in Paris at

their own expense and risk, and, consequently, they would rather give somewhat more for a bill than its par price, to save themselves that expense. But they will not give more than the cost of transmitting the bullion itself, because, if the price rose higher than that, they would sooner send the money. Thus, when the Exchange in London rises against London, or, in the case of Paris, falls below par, it shows that London wishes to send to Paris more than it has to receive, and the exchange is said to be against London, but it is clear that it cannot continue at a greater rate against London than the cost of transmitting bullion. Hence this is manifestly a superior limit to the variation of the Real Exchange.

But the reverse case may also happen. The supply of bills in London on Paris may exceed the demand. The price of them will, therefore, manifestly fall. But, for similar reasons, the cost of transmitting bullion will be an inferior limit below which the price will not fall.

We thus see that the state of the exchanges arising out of the cross remittances of money is a simple example of the general law of supply and demand, with the limitation that the variation in the rates of exchanges cannot exceed a certain definite sum, namely, twice the cost of sending bullion from one place to the other.

These limits of the Rate of Exchange are called *specie points*, because, when the Exchanges reach them, bullion may be expected to flow in, or out, as the case may be.

It is to be observed, however, that these limits of the variations of the Exchange, or specie points, only apply to bills payable at once, and to long periods. During short periods, and for bills which have some time to run, temporary causes may produce fluctuations in the Exchanges greatly exceeding these limits. We shall consider these cases fully afterwards.

On the Effects of an Inconvertible Paper Currency on the Foreign Exchanges.

7. We must now consider what the effect of an inconvertible paper currency will be on the foreign exchanges, and the market price of bullion. So long as paper is convertible, that is, the

holder of it has power to demand payment in gold for it at sight, it is very clear that it cannot circulate at a discount, because, if it fell to a discount, every person who held it would immediately go and demand gold for it. But, if while it enjoys considerable circulation, the power of convertibility is suddenly taken away, then it becomes, in all respects, equivalent to a new standard, just as much as gold or silver, and its value will be affected by the same principles as these two, viz., by the sole question of the *quantity* of it in circulation, compared to the operations it represents.

Under the old system of making an attempt to fix the value of silver and gold relatively to each other, there was no power of convertibility of one into the other similar to the convertibility of the note. If silver fell to a discount, as compared with gold, no persons could demand, as a right, to have their silver exchanged for gold, consequently, the inevitable result of a considerable change in the quantity of either metal was a change in their market values. Thus, in 1794, gold rose to 84s., if purchased with *silver* bullion; now, if, speaking by analogy, the silver coin had been convertible into gold, the difference never could have arisen, any more than a bank note, convertible at the will of the holder of it, could circulate at a discount. Now paper, when issued as a substantive standard of value, follows exactly the same rules; if only the usual quantity of it be issued, *i. e.*, no greater quantity than would have been issued if it were convertible into specie, it will continue to circulate at its par value; but, if these issues be continued, and if it be deprived of the natural corrector of an over-issue, viz., payment on demand, it is maintained in circulation, and exactly the same result follows as attends an excessive issue of silver—it falls to a discount. Now, the silver coin may fall to a discount from two circumstances, either if silver be coined with too great profuseness, the excessive quantity of it will *diminish its value*, even though the coin be of full weight; or if the silver coin be suffered to fall into a degraded state by clipping and wearing, so that it does not contain the full legal weight of bullion, it then becomes *depreciated*. The apparent result in figures will be just the same in either case; guineas will rise to 24s. or 30s. But, as silver has general value, and is, from its qualities, a recognised measure of value, it is not correct to apply the term *depreciation* to it

as long as the coin contains its full legal weight of bullion. But the case is different with paper; it is only received on account of bearing a promise to pay a certain quantity of bullion on the face of it; and if it is not able to fulfil that promise, it is *depreciated.*

Now if, for the public convenience, it is deemed advisable to issue an inconvertible paper currency, the only way of maintaining its currency at par, is by limiting its quantity. We do not mean by this, limiting its quantity to an absolute fixed amount, but by devising some means whereby *a greater quantity of it shall not be issued than if it were convertible into gold.* If more than this be issued, it will be followed by the same result as attends an excessive issue of silver, it will fall to a discount, which, in this case, is *depreciation;* and the necessary consequences of a depreciated currency will follow, viz., the market price (or paper price) of bullion will rise above the mint price, and the foreign exchanges will fall.

Now, if such a state of things happens, the proper remedy is to *diminish* the quantity of the paper in circulation until the market price of bullion is reduced to the level of the mint price. If the direct power of demanding five sovereigns be taken away from the holder of a £5 note, still, if he can purchase bullion with it in the market to the amount of five sovereigns, it is an infallible proof that the note is current at par; and the limitation need not proceed beyond that. But, if this be not done, the next best thing is to allow all persons to receive the notes at whatever value they choose to put upon them; and let them make a difference, if they choose, between the prices of articles when paid in gold, or in paper. If this be allowed, no very great inconvenience will take place in the internal trade of the country, beyond a certain loss of *prestige* which must happen to an institution whose paper circulates at a discount.

But suppose the law, with more zeal for the honour of the paper currency than discretion, declares it to be a crime to make a difference between paper and gold, and a punishable offence to give twenty sovereigns in gold for twenty-one pounds in paper—what will be the consequence? Exactly the same as we have seen happen when the silver and gold coins were improperly rated, *the one which was underrated disappeared from circulation.* We have seen this happen both in the case of the gold coin and the silver

coin. Now, when the inconvertible paper currency is issued in too great abundance, and has a tendency to overflow the channels of circulation, its natural effect is to raise prices when paid in it. If people were free in their transactions, they would gradually make a difference in price between payments in paper and payments in bullion; but if the owners of the coin are prevented by law from receiving more for it than the same nominal sum in paper, they will do exactly the same thing as is invariably done when, in a metallic currency, part is depreciated and part is of full weight, they will either hoard or export it. At all events, it will disappear from circulation. Now, as the gold gradually disappears, and paper issues multiply, people begin to estimate all prices by transferring their ideas from the gold to the paper, and the paper ends by finally displacing the entire gold coinage.

The stamp on the coin is similar to the banker's "promise to pay" on a note. The stamp is the guarantee of the State, that the coin does actually contain a given amount of bullion; the "promise to pay" is the banker's guarantee that he can pay so much coin if required. The convertibility of the coin into the legal amount of bullion, is the test of the depreciation of the metallic currency; so the convertibility of the note into coin is the test of the depreciation of the note. If the power of demanding coin be taken away by the *State*, the power of commanding a certain quantity of bullion in the market still equally remains as the only test of its value. The *Mint* price of bullion is the price paid in coins of the full legal weight, the market price means its price paid in the current coins, and a difference between the two is the proof and measure of the depreciation of the current coin. When paper became the standard currency, the market price of bullion meant the price of it when paid in the paper currency, or the paper price of it; and, by a parity of reasoning, if the paper price of gold bullion rose above the Mint price, it was the *proof and the measure of the depreciation of the paper currency.*

Whenever the currency of a country becomes redundant, that is to say, that prices rise so much higher in one country than in its neighbours, that the value of money sensibly diminishes, the natural corrective for such a thing is to take a certain portion of it out of circulation, so that, by diminishing the quantity of it, its value may be raised. When people find that the same quantity

of gold will not purchase an equal amount of commodities in this country, as they will in another, their own natural instincts will lead them to purchase commodities abroad where they are cheap, and bring them for sale here where they are dear. The natural instinct of trade will, therefore, produce an equilibrium in value in the currency of neighbouring countries.

Now, when the currency of a country consists partly of paper and partly of gold and silver, it is quite clear that only the metallic portion of it can be exported in payment of foreign commodities. The paper portion of it, which has no value abroad, must remain at home. If the issues of the paper be continued, so as to prevent the currency from recovering its value, the process of the exportation of the metallic portion will go on until it is entirely exhausted. If this be the case, the only method of restoring the currency to its former value is by diminishing the quantity of the paper, until the drain is stopped by the enhancement of the value of the whole currency. There is, however, a School of Doctrines that maintains that, as the gold goes out, paper should be issued to supply the vacuum until the gold comes back. But it requires little sagacity to see that if that be done, *the gold never will come back again,* and the drain will not cease until it is totally exhausted, and the only way to bring it back again, is to raise its value at home, which can be done only by removing the plethora of paper. When the currency is in its healthy state, the oscillations of the exchange may be compared to those of a tight, staunch ship, which has alway a natural tendency to recover itself; but when there is an excessive quantity of paper, it is like the same ship waterlogged, when she once heels over she never can recover herself until the water is pumped out.

The doctrine that *the rise of the paper price of bullion above the Mint price, and a continuous state of the Foreign Exchanges below the limits of the real exchange, are the proof and the measure of the depreciation of an inconvertible paper currency,* may be called Lord King's law of the currency, because he bore the most conspicuous part in establishing it. The rise of the paper price of bullion attracted great attention soon after the beginning of this century, when Lord King and some others published pamphlets to demonstrate the above proposition. However, the price of bullion fell, and the subject slept till 1809, when the extraordinary rise of the

paper price of bullion began again to be seriously felt. Ricardo then appeared as a writer for the first time, and a pamphlet he published to prove Lord King's doctrine, was the foundation of his fame as an Economist. This controversy gave rise to the famous Bullion Report, and the great currency debates in 1811, when the House of Commons solemnly repudiated the doctrine. This doctrine is now universally admitted, so that it is needless to say much more about it.

On Exchange Operations.

8. Exchange operations consist in buying, selling, importing and exporting bullion, called "Bullion Operations," and buying and selling Bills, called "Banking Operations."

The calculations necessary to ascertain the profit and loss on such operations, are given at length in various technical works on the subject. Our object only is to examine the general causes which produce these movements of bullion, which so sorely vex the banking and commercial world.

Exchange operations of both sorts may be either direct or indirect, that is, they may take place directly between the two countries, or the final operations may be effected through the medium of one or more intermediate countries.

We have observed that for bills payable at sight the limits of the variations of the exchange cannot exceed the cost of the transmission of bullion, which are called the specie points, because, when they are reached, bullion may be expected to flow in or out.

When the bills, however, have a considerable time, such as three months, or more, to run, before they are payable, causes may operate which may produce *temporary* fluctuations of the exchange considerably beyond these limits. These are chiefly—

1. The necessity that the holder of these long-dated bills may have to realize them, even at a considerable sacrifice, to maintain their own position.

2. The doubtful position of the acceptors, or the general discredit of the place they are drawn upon.

3. The differing relative values of the precious metals which are the standards of payment at each place.

4. The respective rates of discount at each place.

Now, it may very often happen that, from these combined causes, it may be considerably more profitable to possess bullion at one place than another. Whenever this is the case, exchange operators export bullion from one place to another for the sake of this profit. They create bills upon such a place; they draw upon their correspondents, discount their bills, and remit the proceeds to meet their drafts when due.

It used to be the dogma of many commercial writers that bullion is only exported to discharge a previous state of indebtedness, and that consequently a drain of bullion comes to a natural end, when the indebtedness is discharged. But this is a most grievous error. The sufficient difference of profit in possessing bullion at two places will cause a fabrication of bills for the purpose of exporting bullion, without any previous indebtedness, and, of course, this will continue so long as this possibility of profit exists. Consequently, unless this profit is destroyed, the drain of bullion will not cease. The effectual way of annihilating this profit is by raising the rate of discount.

It is manifest that in such operations, the difference of profit between the two places must exceed twice the cost of transmitting bullion, because, in such cases, the cost of transmitting the bullion both ways will fall on those who originate them.

Between countries in which there are no restraints upon trade, the exchanges will never vary much, except on some sudden emergency; but there are countries with which, owing to the prohibitive laws which still infest their commercial codes, the exchanges are permanently unfavourable, because they will take nothing but bullion for their commodities. Russia is one of these countries, and hence, if not modified by other circumstances, bills upon Russia would always be at a premium; but here again the effect of trafficking steps in, which always has a tendency to equalise prices. The merchant (if we may call him so) who deals in bills, acts upon the same principles as the dealer in any other commodities, he buys them where they are cheapest, and sells them where they are dearest. Hence, he will try to buy up Russian bills cheaper in other exchanges, or debt markets, and sell them in the London debt market. On the other hand, from the course of trade between England and Italy, the debt which Italy owes to England is usually greater than the contrary; hence, Italian bills will usually be at a discount, or cheap, in the London

debt market. So the bill merchant buys them up cheap here, and sends them to some other market—Paris, for instance—where they may be at a premium. By these means, the price of bills is raised where they are cheapest, and depressed where they are dearest; and the general result will be to melt all the differences between separate countries into one general result, so that the exchanges will not be favourable with one country and adverse with another, but they will be generally adverse or favourable with all the rest of the world.

Supposing, however, a merchant has to remit money to Paris while the exchange with Paris is unfavourable to England, he may possibly discover a more advantageous way of remitting it than by buying a bill on Paris directly. Thus, for instance, while bills on Paris are at a premium in London, those on Hamburg may be at a discount, and bills on Paris may be at a discount in Hamburg, So, if the merchant buys a bill on Hamburg and sends it to his agent there, and directs him to purchase a bill on Paris with the proceeds, he may be able to discharge his debt in Paris at a less sum than he would have to pay for a Paris bill in London. This circuitous way of settling his debt involves additional charge for brokerage, commission, postage, &c., but the effect of it is still further to equalise the exchanges between London and all other countries. This circuitous method is called the *arbitration of exchanges*, and the sum which is given in London for the ultimate price it realises in Paris is called its arbitrated price. When only three places are used in the operation as above, it is called *simple arbitration*. When more than three are employed, it is called *compound arbitration*. The practical rules for working out these results are very simple, and will be found in any technical book on the subject. But it is very evident that the quicker, safer, and cheaper the communication between countries becomes, the less room will there be for such operations, because the limits of the variation of the real exchanges, which are the margin which renders such transactions possible, will constantly diminish.

The scale on which these indirect operations of exchange is carried on is immense, and peculiarly affects the London exchange. There is no exchange between places to and from which remittances have not constantly to be made. Consequently, when such places trade, their accounts must be settled by means of drafts

upon some third recognised centre. Now, London is the banking centre of the world. From the enormous exports of England to all quarters of the globe, remittances have to be made to London from every part of the world. There is, therefore, a constant demand for bills upon London to discharge the debts incurred for these commodities. Hence, although the exporters may send their goods to different countries, yet if they can draw upon London, their bills will be sure to find some purchasers somewhere to be remitted to England. Hence bills upon London bear a higher price, and meet with a readier sale, than those upon other places.

One country A may import from another B less than she exports, and, consequently, a debt is due from A to B. Also, B exports to another country C more than she imports; and, consequently, a debt is due from C to B, and A may discharge its debt to B by transferring to it its claim against C.

As many countries trade with one another, between which there is no exchange, their claims are mutually adjusted by drafts upon London, the commercial centre. Hence, the London exchange is the most important in the world, and requires the greatest attention to be paid to it.

In the same way that there are arbitrated rates of exchange, there are arbitrated prices of bullion, but we need not enter into them here.

On the Real or Commercial Exchange.

9. We must now consider the causes that affect the Real Exchange, or the true Commercial one, which arises out of the transactions between this and other countries. As the British Islands do not produce the precious metals to any extent worth considering, they are only to be obtained in this country by importation, and we must now consider the various sources from which they come, and the different causes that produce an influx, or efflux, of them. They are to be treated in every other respect like any other foreign commodity, and are obtained by the same means as any other one that we require for domestic consumption which is not a native product.

The trade in bullion may be divided into two distinct branches: the one where it is carried on directly with the countries in which

gold and silver are native products, and the other with those countries which do not produce it, but which, like our own, have no means of supplying themselves with it except by foreign commerce.

I. *With bullion-producing countries.* Before the late discoveries in California and Australia, the chief bullion-producing countries were Mexico and Peru. We need not specify others, because the same principle applies to them all, and to describe them all would rather belong to a work on commerce generally. British merchants have establishments, or correspondents, in these countries to whom they consign their goods, and their agents exchange them for the bullion brought down by the natives, and which is collected in large quantities, and usually brought home by men-of-war for the sake of security. Most of the men-of-war on the Pacific and West India stations make a voyage along the coast before they return home to collect bullion from the merchants, and the captain receives a commission on the freight. In these countries bullion is treated exactly like any other commodity, such as tea, or wool, or wine, and the British goods of all kinds are exported to them for the express purpose of being exchanged for bullion to be remitted home. The limits of this exportation are precisely similar to the limits of the exportation to any other country. It is clear, that by the time the bullion reaches this country, it ought to be sufficient to cover the original price of the goods, and all the charges on them on their way out, as well as the agent's commission there, the charges for freight, insurance, and commission for bringing it home, and a fair mercantile profit over and above all these expenses. Unless it does that, the commerce is not profitable. If too many goods are exported to these bullion-producing countries, their exchangeable value with bullion falls, and they will not purchase a sufficient quantity of bullion to afford this profit, and the further exportation of such goods to these markets must be discontinued until the goods first sent out are consumed and fresh ones required. The purchase of bullion, then, in these countries, is a very simple affair, and requires no further notice.

II. *With countries which do not produce bullion.* The causes which produce an inflow or outflow of bullion, between this and

other countries like it, which do not produce bullion, are much more intricate, and have excited long and keen controversies. Taking this country as the centre, we may consider that the transmission of bullion to or from it is influenced by the SEVEN following causes:—

1. The balance of payments to be made to or by it.
2. By the state of the foreign exchanges.
3. By the state of the currency.
4. By remittances made to this country, as the commercial centre of Europe, to meet payments due to other countries.
5. By the political security of this and neighbouring countries.
6. By the state of the money market, or the comparative rates of interest in this and neighbouring countries.
7. By the free or prohibitive commercial tariffs of this and foreign countries, as they permit or forbid our manufactures to be imported into them.

There are, then, seven different causes which act upon the movements of bullion, and, in any case, it is necessary to ascertain to which of these causes it is due. The inveterate error of mercantile opinion for a long time was, that there is only one cause which causes an export of bullion, namely, a balance of payments to be made.

We have already shewn that a degraded state of the currency has the inevitable effect of driving away bullion from here. As we may fairly hope that our currency will never again be allowed to fall into such a disgraceful condition as it was till 1816, we may consider that this cause is not likely to operate again on the bullion market; and we may now proceed to develope the system of the FOREIGN EXCHANGES.

According to the crude ideas that were generally received about a century ago, gold and silver were almost universally considered to be nearly the only species of wealth, and it was considered to be the true policy of every country to encourage by every means in its power, the influx of bullion, and to discourage its export; and most, if not all, of the European nations have gone so far, at one time or another, as to prohibit its export. The profit of foreign commerce was estimated solely by the quantity of gold and silver it brought into the country; and the Theory of Commerce seemed to be reduced to a general scramble among all nations, to

see which could draw to itself most gold and silver from the others. According to this theory, the gain of one party was the loss of the other; every article produced in another country, and imported into this one, was considered to be a direct loss to the country. This was what was called the mercantile or commercial system. According to this theory, the leading maxim which governed the Legislature was, to make the exports to exceed the imports; and the conclusion drawn was, that the difference, or balance, must be paid for in cash by the debtor nation. When two nations traded with one another, the difference of debts between them was called the "balance of trade," and, when this was in favour of England, the exchange was said to be favourable, because bullion had to be paid to her; on the contrary, when, on the result of trade, payments had to be made by her, the balance of trade was said to be against her, and the exchange unfavourable, and then gold was sent out of the country. According to this theory, the prosperity, or the contrary, of the country, and the profit, or loss, of foreign commerce was exactly measured, according as gold had to be received or paid, or as the exchange was favourable, or the reverse.

The admirable chapter of Adam Smith on the Principle of the Mercantile System, is a masterly exposition of the fallacy of this theory, and is certainly one of the soundest and best written in his whole work, from the more than usual consistency of its ideas, and the lucidity of its style. There are, however, some things relating to the subject which require further enforcement and illustration.

So far from the principle of the mercantile theory being true, that gold and silver are the most profitable and desirable objects of import, the direct reverse is unquestionably true, that gold and silver are, of all objects of commerce, the most unprofitable; and it is a certain axiom of commerce in a state of freedom, *that bullion will not be imported until it has become unprofitable to import any other article.* There are no class of traders who derive so little profit, in proportion to the capital invested in their business, as dealers in bullion and money of all sorts, whether they be bullion merchants or bankers. Although the opinions we have alluded to above were the prevalent ideas of the age, there were not wanting a few sagacious thinkers, who discovered the truth of what we have last said, and maintained

the unprofitable nature of gold and silver; but, like others who are before their age, their voice was unheeded, and the general object of commercial ambition and legislation was to accumulate treasures of gold and silver.

There is no expression in commerce of more frequent occurrence than the "balance of trade," and it may be as well to give the interpretation of it generally received during the last century, and which is not yet wholly extinguished. Mr. Irving, Inspector-General of Imports and Exports in 1797, defined it thus:—"The common mode of considering that question has been to set off the value of the imports, as stated in the public accounts, against the value of the exports, and the difference between the one and the other has been considered the measure of the increase or decrease of the national profit." And Mr. Hoare, a banker of eminence for twenty-two years, said:—"I consider the only proper means of bringing gold and silver into this country to arise from the surplus of our exports over our imports, and that ratio or proportion which is not imported in goods, must be paid for in bullion. In the year 1796, the imports of this country appear to be £19,788,923, and the exports appear to be £33,454,583, which ought to have brought to this country bullion to the amount of that difference, or £10,665,660."

We have made these extracts because they convey, in the fewest words possible, the whole ideas on the subject, and they are made by persons of great commercial eminence before the Committee of the House of Commons. It is true that Mr. Irving, who was Inspector-General of the Exports and Imports of Great Britain and the British Colonies, expressly states that the application of this principle to the whole of the British trade would, in his judgment, be extremely erroneous. We, therefore, do not bring him forward as *approving* of the theory, but only as stating distinctly and authoritatively what it was. But Mr. Hoare, a banker of eminence and long experience, adopted it; and we believe that this theory of the balance of trade still retains a hold on the minds of great numbers of persons who do not give themselves the trouble to sift it thoroughly. Nevertheless, there never existed a more complete chimera and pernicious delusion than this said doctrine of the balance of trade, nor one which has exercised so disastrous an influence on commercial legislation.

It appears that the simplest way of arriving at an accurate conclusion on the subject is, to consider that the dealings between nation and nation are only made up of the aggregate of dealings between individuals of the nations, and we have only to consider the variety of methods in which an individual merchant may trade, to have an accurate and comprehensive idea of the commerce of the nation. Instead of dealing with figures of vast amount, which make no definite impression on the mind, and which are produced by a number of complex causes, we shall now proceed to consider in how many different ways an individual merchant may trade with foreign countries, and we shall shew, by considering the dealings of an individual, how utterly erroneous it is to suppose that an influx of bullion is, *ipso facto*, a proof that commerce is flourishing and profitable to the country, and that whether it is so or not depends very much as to where it comes from, as well as a number of other circumstances.

With respect to those countries in which bullion is a native product, and to which we trade for the express purpose of obtaining it, we have already shewn, that unless the quantity obtained in exchange for our goods exceeds a certain amount, the commerce is not a profitable one, and that the simple fact of bullion being remitted from them, and, therefore, though the exchanges with them must always be in our favour, it is no proof whatever of prosperity or profit.

Next, with respect to countries which do not produce bullion, it is easy to shew the extreme fallacy of the opinion that our exports should exceed our imports, and that the *difference* will be the *profit* of the country; in many cases the precise reverse is true, that our imports should exceed our exports, and the profits are measured by the exact sum by which the imports exceed the exports, or the excess of what we receive over what we give.

To prove this, let us take a simple case. Suppose a merchant in London sends out £1,000 of goods to Bordeaux, by the time they arrive there, the mere addition of freight, insurance, and other charges, will probably have increased their cost of protion, or the expense of placing them where they are, to £1,050, supposing them to be sold without any profit at all. But, as the merchant would never have sent them to that market unless he expected to realise a good profit, we may assume that the

market is favourable, and that they sell for £1,500, and he would probably draw against his agent for £1,200, His correspondent at Bordeaux, instead of remitting the money to England, would find it far more profitable to invest the proceeds of the goods in some native product, which would fetch a good price in England. The chief native product of that country is *wine*, so the agent would invest the proceeds of the goods, after deducting all charges for freight, commission, &c., in Bordeaux wine, and send it to England. This wine would probably be sold at a considerable profit in the English market, say it would fetch £2,000; and, after deducting all the charges of every description on the cargoes both ways, the difference would be the merchant's profit. In this case it is quite clear that no bullion would pass between the countries, and the merchant would apparently import more than he exported, and it is also clear that his profits are exactly estimated by the excess of the value of the inward cargo above that of the outward one, after deducting all charges both ways, and just as this difference is the greater so is his gain greater. In this case, as no bullion would pass from either country to the other, there would be no question of exchanges.

It is clear that the London merchant's agent at Bordeaux would be governed by several considerations as to whether he would remit specie or wine to London, and he would be chiefly governed by the state of the wine markets, both at Bordeaux and London. For, supposing the goods to be sold at a good profit at Bordeaux, he must next consider the price of the wine at Bordeaux, and also what it might be expected to fetch in London. If some great disaster had happened to the vines so that there was a failure of the crops, the price of wine at Bordeaux might rule excessively high, but at the same time there might be a large stock of wine in London, and the price might not be unusually high; so that if he were to purchase wine at Bordeaux, and send it to London, it might be a loss. In such a case as this, if there were no other native product to send, he would find it more advantageous to remit specie, whatever he could sell the goods for, and then the exchange would be in favour of London; but, before the London merchant could reckon his profits, he would have to deduct the freight, insurance, &c., on the specie.

Whether the transaction was profitable or not to the London merchant would entirely depend on the amount of specie he received after deducting all charges; and if he had purchased the goods he sent out from England cheap, and there was a scarcity of them at Bordeaux, he might realise high prices there, which might leave him a good profit. It would be very improbable that he could realise so much profit on that single operation as in the double one of exporting goods and importing wine. So that the import of the specie would be less profitable to him, and the nation at large, than the import of the wine.

The reasons which caused the export of specie from Bordeaux, and the import of it into England, in this case, are very plain, they were the scarcity and dearness of the native products at Bordeaux, and the abundant supply of them already in the London market. Hence, we gather that the scarcity and dearness of native products is an infallible cause of the export of specie from a country; on the contrary, an already existing abundant supply of foreign products of all sorts is a certain cause of its import into a country. On the contrary, when native products are cheap and abundant, it will cause an importation of bullion, and when foreign products are scarce and dear, it will cause an export of bullion.

We have before observed that the exchange being in favour of a country means nothing more than that bullion has to be remitted to it. In the case above described, the exchange at Bordeaux would be in favour of London; but this simple case is as good as a thousand to shew the extreme and dangerous fallacy of drawing any conclusion as to the advantage of the trade to England, from the simple fact of the exchange being favourable to her, and an inflow of bullion taking place.

The example given above is of the simplest description, and a merchant of eminence, who has correspondents in several different parts of the world, might easily multiply these operations, so as to visit many markets before the returns of his cargo were brought home. Thus, instead of having the wine sent home from Bordeaux, his correspondent might find it more profitable to send it to Buenos Ayres, and dispose of it there. The chief native product of that place is hides, and we may suppose that his correspondent there might invest the proceeds of the cargo of wine in hides, which there might be a favourable oppor-

tunity of selling in the West Indies. When the cargo arrived in the West Indies, instead of remitting the proceeds directly home, it might very well happen that, owing to a scarcity of corn at home, it might be very high there, and cheap in Canada, so he would invest the proceeds of the hides in sugar, and despatch that to Canada, where the merchant's correspondent there would dispose of it, and purchase corn, which he would send to England.

In the case just described, we observe that there are five distinct operations, and, as we may suppose that there is a profit upon each of them, by the time the returns for the goods, which originally cost £1,000, are brought to England, it may very well be, that the corn, which forms the ultimate payment of them, may be several times as valuable as the original cargo; and, as we have supposed the charges on each operation to be deducted before investing the proceeds in other articles, it is clear that the merchant's profit upon the whole is exactly the difference in value in England between the articles last purchased and sent home and the original cargo; after deducting all the expenses of sending home the last cargo, and we also observe that no specie has been sent from one country to the other in the whole course of the extended operation.

This example is sufficient to demonstrate the utter fallacy of the old idea, which is even yet not extinguished, of the balance of trade. Nothing can be more clear, that unless the value of the cargo which comes into England, in payment of the cargo that was sent out, is sufficient, not only to defray the cost of the original cargo, as well as all charges upon it and the return cargo, and leave a profit besides, the commerce could not be carried on. No English merchant could export goods unless he receives in return others of much greather value; and the obvious consideration, that the more he gets for what he sends out, the more profitable it is to himself and the nation, is sufficient by itself to explode the old fallacy of the balance of trade. One obvious source of error is, that the value of the exports from this country is estimated at the time of their leaving the country, and before the charges for freight, &c., are incurred, which must necessarily raise their selling price in the foreign market, if they are not sold at a loss, and their value in that market is expected to be considerably higher than that. On the other

hand, the value of the imports is estimated, not according to their value when they left the foreign country, but what it is upon their arrival here, including all their charges upon them.

If we suppose that Bordeaux had but one native product—wine—the chances of finding the markets, both at Bordeaux and London, in a favourable state for importing produce instead of specie, would be limited to that single article. But if it had other products, such as olive oil, the chances would be increased of finding articles to suit the market, and the chances would evidently be multiplied according to the number and variety of its products.

Let us take another example, and let New York be the starting place. The staple products of America are breadstuffs and provisions. A merchant of New York sends a cargo of corn to Liverpool, and his correspondent there will endeavour to invest the proceeds of that in British goods, if he finds the state of the markets in England and New York will make such an operation profitable. Suppose that the price of corn is very high here, and British goods are also very high here, and very low in America, it is clear that nothing but specie will be sent. In cases where a great and unexpected dearth of corn occurs in England, and its price rises enormously high, the infallible result is to cause a great drain of specie for the time being, because our necessity for food is much more pressing and immediate than their necessity or capability of consuming our cotton or woollen goods. And the only way to arrest such a drain is to effect such a reduction in the prices of British goods as shall make it more profitable to export goods than specie.

In the cases we have hitherto been considering, we have described the operations as if merchants were left perfectly free to carry their goods whither they pleased, and were not met and obstructed by artificial obstacles purposely devised for interfering with their business, by the laws of different nations. But there are few nations, and our own among the rest, which have not habitually discouraged the importation of foreign goods, and imposed heavy duties for the specific purpose of excluding them, as they conceived the extraordinary idea that all foreign goods brought into the country were so much loss to it. Thus, the statute of William III. (1688, c. 24) says:—"It hath been found by long experience that the importing of French commodities

of all sorts" (enumerating them) "hath much exhausted the treasure of this nation, lessened the value of the native commodities and manufactures thereof, and greatly *impoverished* the English artificers and handicrafts, and caused great *detriment* to the kingdom in general." If we consider the effect of these laws in one place, it will equally apply to every other; thus, in the first instance, suppose that there are very high protecting duties at Bordeaux against British goods, as the consumer must ultimately pay all the expenses and charges on the goods, it will have the effect of greatly raising the market price there, and diminishing the number of persons who can afford to buy them, and hence, as the market is so limited, a smaller quantity of goods will overstock it than if it were more extended. This will cause a much less quantity of goods to be sent from London, and it will cause a much larger proportion of specie to be remitted to pay for the productions of Bordeaux. This example shews that the inevitable effect of high protecting duties between country and country is to cause a much more frequent transmission of bullion from one to the other than would be the case in an unfettered state of commerce; unless, indeed, the smuggler steps in, who is the corrector provided by nature against this commercial insanity. The effect, then, of prohibitive duties is to cause an inflow of bullion; but we must carefully guard against supposing that this inflow is a favourable sign, as it is certainly the least profitable import a merchant can receive for his goods; and there is this very marked difference between an inflow of bullion under the Protectionist system and under a Free Trade system, that the former is accompanied with a great dearth of foreign commodities, but the latter is an infallible sign of great abundance of them, as bullion is never imported when men are allowed to follow their own interests, until our markets are already so overstocked that every other article has ceased to be profitable.

The foregoing cases comprehend the different varieties of commercial transactions between this and any other country, and we gather from them the following results respecting the inflow or outflow of bullion:—

I. The cause of bullion being imported is either when the price of goods is so *low* in England, and so *high* in the foreign market, as to tempt foreigners to send here to buy goods, or the

price of goods is so high in the foreign market, and so low in England, that nothing but specie can be sent in payment of goods exported from England.

II. The cause of bullion being exported from England is that there is some great and pressing demand for some article in this country, and other commodities are so scarce and dear that they cannot be exported with a profit, or that the article is required in such great quantities that the foreigner cannot consume our goods which we should prefer to send in payment fast enough, and so specie must be sent, and the greater the difference in price the greater will be the drain of bullion: or that other markets are already overstocked with our productions, which are depressed below their usual market value there. This is what is meant by overtrading; and, from this circumstance, we see that overtrading is a sure precursor of a drain of bullion from the country. When there has been a great failure of the crops in this country, so as to cause a famine price, the demand for corn is so immediate and urgent that it necessarily causes a great drain of specie and it is then of the greatest possible consequence that the prices of other commodities should be as low as possible, to enable them to be sent in payment of the necessary supplies of food, and prevent such a drain of bullion as may disturb the whole monetary system of the country.

Overtrading, and a failure of the cereal crops of this country, are each of them sure causes of a drain of bullion. The most disastrous event for the commerce of this country is when both these circumstances happen concurrently. It is like a spring tide of disaster. The most terribly disastrous commercial crisis this country ever experienced was preceded by some years of overtrading, followed by successive failures in the staple support of the people of England and Ireland. These two adverse events together produced the calamities of 1847. We shall see that the intended effect of the Bank Act of 1844 is to provide a remedy for such a state of things, by causing such a reduction in the price of home commodities, in the event of a drain of specie taking place, as to render it more profitable to export them than bullion, and so stop the drain. Whether the Act is effective for this purpose is another question, which it is not the proper place to discuss here.

There are some countries from which we draw articles of

great necessity, but to which, from different circumstances, we do not expect to remit goods in payment. Russia was the great source of our supply of hemp, tallow, and flax, and we used to import these products to the value of £12,000,000 yearly, but, owing to the prohibitive character of her tariff, we were unable to send our own products in payment of these goods to anything like a similar amount in value. To such a country the difference must be remitted in cash, to the mutual loss of both parties; and, unless there were other means of equalising the exchanges with different countries, the exchange with Russia would always be unfavourable to England. The chief export trade from Ireland to England was in articles of food—pigs, cattle, oats, butter. Great quantities of these came from Ireland, but the inhabitants of that country were much too poor to be able to consume an equivalent amount of English goods; in consequence of which the difference had to be remitted in specie, and so the exchanges between England and Ireland were almost uniformly favourable to Ireland. Now, if Ireland had been sufficiently wealthy to have consumed English goods instead of specie, it is evident that it would have been far more advantageous for both countries; for English industry would have been promoted, and Ireland would have gained a more valuable import. These two examples offer a further illustration of what we said before, that the frequent transmission of bullion between countries which do not produce it, is a symptom of a less profitable trade than it would be if goods were transmitted.

In the operation first described above, we have supposed it to originate with the English merchant who remits his goods to his correspondent abroad, and who reaps the profits, and the proceeds must be remitted to him after deducting the freight, charges, and commission of the agent there. But it is also probable that there will be native merchants at Bordeaux, who will send wine to England on their own account to their correspondents here, and then the whole transaction will be reversed. The English correspondent will endeavour to purchase English goods as low as he can, and if he can get them low enough to realise a profit in the Bordeaux market, he will send goods out; but if the English goods are too high for that purpose, he must send specie. It is also evident that, even if the goods be at no unusual height in England, still, if the market at Bordeaux be

already overstocked with them, or, as it is called, "glutted," it would be useless to send more goods, to force the price down still further, and the consequence must be that nothing but specie will go.

From this we see, that if specie be coming in from a country, it is a proof that we have already got so many of their goods, that it will not pay to import any more, and if specie be going out to a country, it shews that we have already sent out so many of our goods to that market that it is already overstocked. The different barbarous laws which every country has enacted under the erroneous appellation of protection, by aggravating the price, limit the markets in every country for the products of other countries, and cause much fewer commodities to pass between nations than otherwise would, and cause the markets of any country to be much sooner overstocked than they would otherwise be. By preventing this interchange of commodities which every nation would naturally prefer, it necessitates payments in specie to a much larger extent than would be the case if commerce were free, to the common impoverishment of all parties.

The foregoing considerations shew that it is possible to carry on any amount of foreign trade without the necessity of any remittances being made in specie. In the instance above taken, the English merchant purchases goods and sends them to his correspondent abroad, who realises them and invests the proceeds in that market, and sends them to England, and the English merchant disposes of them in England, and gains the profits there, and no specie is sent from one country to the other. Similarly the foreign merchant sends his goods to his correspondent in England, who disposes of them there, and invests the proceeds of them in England in English commodities, and sends them to his foreign correspondent, who gains his profit, either by selling them in his own country, or by sending them to some other market where he may make a higher return, and, as in the former case, no specie passes between the two. Nor is the result in any way different if the trade be conducted by the more circuitous method of three or more transactions. Hence, in a healthy state of the markets of different countries, scarcely any specie will pass between them, and the very fact of there being a necessity for making frequent and large remittances of specie from one country to another, is in itself a proof of there being

something irregular and unhealthy in the state of commerce in general, and in the state of the markets of one country or the other, either that they are overstocked or understocked, or that there is some legislative interference with the natural course of trade between nation and nation. Nothing can be more certain than that bullion is the least profitable of any article of commerce, except from bullion-producing countries, and that when merchants have recourse to it, it is because some disturbance has taken place in the profitable relations between supply and demand of other commodities.

Now, supposing commerce to be in that desirable and healthy state in which no specie passes between non-bullion-producing countries, who could tell how what is called the balance of trade is inclined? Who can tell what the balance of trade is? Each country would shew a favourable balance, taking the values of the exports and the imports at their market prices in each country. Each country would shew that their imports exceeded their exports in value, that is, each would shew that they had gained by their commerce, for the very simple reason that the value of the article they received would be greater in their own market than the value of the one they gave; and, unless it was so, it is manifest that trade could not be carried on, because all the expenses and profits of trade are provided for, by the difference in value between what they give and what they receive. Hence, unless both parties gain by the transaction, commerce cannot be carried on. But this shews that the expression "balance of trade" is a gigantic delusion, and it is greatly to be wished that it should be for ever exploded and laid aside, as the fountain and origin of incalculable mischief to the world, in the suicidal efforts every nation has made to secure to itself that great chimera—a favourable balance.

The mistake of unreflecting writers, who think that the price of foreign goods sold in this country goes into the pocket of the foreigner, consists in this, that the probability is, that the English merchant who imports these goods has already purchased them with English goods, so that their money price goes into the pocket of the English merchant, and not that of the foreign one, and is, probably, re-invested in English goods, if there is a prospect of a favourable opening for them.

The fundamental fallacy about the balance of trade, which

seems to have taken possession of the Legislature, was, that the interests of the State were different and opposite to the interests of individuals. They seem to have entertained the idea that every merchant had entered into a conspiracy to ruin the country, which he tried to carry into effect by becoming as prosperous himself as he could. It seems most unaccountable how long they missed the obvious truism, that the prosperity of the State was made up of the prosperity of the individuals composing it, and that every one was far keener in discerning what conduced to his own prosperity than the State could be, and that if private merchants found it to be to their individual advantage to import commodities rather than bullion, it could not be beneficial to the State to force trade into a contrary direction.

Notwithstanding the prevalent idea that foreign trade was profitable just in proportion to the money it brought into the kingdom, and that this was indicated by the so-called balance of trade, there were a few enlightened persons who saw through the fallacy, and combated it. In reference to a certain "balance" which occurred in the trade between Holland and England, and which was a subject of much gratulation, Craik well observes that it would be as irrational to suppose that the English must necessarily be the chief gainers by this trade, as it would be to maintain that the productive labourer must always be a greater gainer on the article he produces than the capitalist who employs him. That the Dutch were in the position of the capitalist, and the English of the labourer, and that while the Dutch had the goods the English had the money; just as, while the master has the goods the workman has his wages. But that the excess of profit, or real advantage, should be with the labourer rather than with the capitalist, may fairly be presumed to be as unusual, and as little likely in the nature of things, in the case of nations as of individuals.

An attentive consideration of these various methods of trading will shew what a complete phantasy the old, and still too common, idea of the "balance of trade" is; and, as nothing more conduces to error and confusion in any science than a nomenclature and technical phrases which are founded upon misconceptions of the principles of that science, so nothing has exercised a more malignant influence upon legislation, and popular ideas generally, han this phrase; and it would be very desirable if some means

could be taken to discontinue its use altogether. But, as it does occur in the course of trade that transactions between nations have to be settled in specie, we must now consider the operations of the foreign exchanges.

The course of the foreign exchanges, then, entirely depends upon the fact of persons in one country having to make payments to persons in another country, from whatever causes these payments have to be made. And there are but two causes which influence their rates: first, the depreciation of one or both of the currencies which have to be exchanged, secondly, the relative amounts of money that have to be remitted from one country to the other.

On the Rate of Discount as influencing the Exchanges.

10. We have now to treat of a cause of the movement of bullion which has acquired an importance in modern times, far exceeding what it ever did before; in fact, it is now probably more important than any other, viz., a difference in the rate of interest or discount between two countries. In former times, when the communication between different places was slow and expensive, before the days of railroads and steamers, a considerable difference might exist in the rates of interest in two places, without causing a movement of bullion from one place to the other. But that is not possible now. The communication between places is so rapid now that directly the difference between the rates of interest in any two places is more than sufficient to pay for the expense of sending the bullion, an immediate flow of bullion commences from one place to the other. And this is in exact accordance with the usual mercantile principle that operates in every other case, that if the difference of price of the same article in any two markets is more than sufficient to repay the cost of sending it from one to the other, it will be sent; and this movement will continue as long as the difference in price continues. Now, if the rate of discount in London is 3 per cent., and that in Paris is 6 per cent., the simple meaning of that is that gold may be bought for 3 per cent. in London, and sold at 6 per cent. in Paris. But the expense of sending it from one to the other does not exceed $\frac{1}{2}$ per cent.,

consequently it leaves $2\frac{1}{4}$ or $2\frac{1}{2}$ per cent. profit on the operation. The natural consequence immediately follows, gold flies from London to Paris, and the drain will not cease until the rates of discount are brought within a certain degree of equality. It used to be the common delusion of mercantile men that gold was only sent to pay a balance arising from the sale of goods, and that, therefore, it must cease of itself whenever these payments were made. But this is a profound delusion. When the rates of discount differ so much as is supposed above between London and Paris, persons in London fabricate bills upon their correspondents in Paris for the express purpose of selling them in London for cash, which they then remit to Paris, and which they can sell again for 6 per cent. And it is quite evident that this drain will not cease so long as the difference in the rates of discount is maintained. Moreover, merchants in Paris immediately send over their bills to be discounted in London, and, of course, have the cash remitted them. Now, the only way of arresting such a drain is to equalise the rates of discount of the two places. These simple facts are a perfectly conclusive answer to those writers, and they are many, who complain of the variations of the rate of discount by the Bank of England, and suppose that it is possible to maintain a uniform rate. Consequently, at the present day it is the imperative duty of the Bank of England to keep a steady watch upon the rates of discount of neighbouring countries, and to follow these variations so as to prevent its being profitable to export bullion from this country.

On Foreign Loans, Securities, and Remittances, as affecting the Exchanges.

11. Besides the state of national indebtedness, arising out of commercial operations, there are other causes which seriously affect the Exchanges. In former times, England being more abundant in money and material resources than men, used to subsidise foreign powers to a great extent: and the method of transmitting such a loan to the best advantage to the remitting country is an operation of considerable nicety and delicacy. If the sums to be remitted were very large, the expense and danger of the transit of the coin would have been very considerable in

former times; but since the introduction of railroads, and greater internal security, such considerations would have little influence at the present day. But an actual and sudden withdrawal of a very large amount of bullion from a commercial country would cause the most disastrous consequences when so many engagements had to be met at a fixed time. When such necessities, therefore, did arise during the last war, the operation was effected by means of Bills of Exchange; and the object to be obtained was, to prevent a sudden vacuum being caused in the currency of one country; but, by operating on all the different centres of payment of Europe, to cause a gradual and equable flow from all of them to the place of payment. We may give, as an instance, the following, as narrated by Mr. Boyd, who had the management of the operation. In the year 1794 the English Government agreed to make a considerable loan to the Emperor of Germany, and the money was required to be sent from London to Vienna, causing as little disturbance as possible in the English money market:—

"The remittance of so large a sum as £4,000,000, I considered as a matter of infinite difficulty and delicacy, so as to prevent its producing any remarkable effects upon the course of Exchange. It was necessary to vary the modes of remitting, and to make use of the various means for that purpose presented by all the different exchanges of Europe. It was not necessary to remit bills upon Hamburg only, because it frequently happened that it answered better to remit to Hamburg upon other places, such as Madrid, Cadiz, Leghorn, Lisbon, Genoa, &c., than to remit direct upon Hamburg; and, having constantly orders from Vienna with regard to the rates of the different remittances to be made, our attention was directed to the accomplishment of these orders, on the best possible terms. In fine, it was necessary to take bullion, bills direct upon Hamburg, and bills upon other places, all into our means of remittance, and to make the most of these modes of remittance without giving the decided preference to that mode which was the most favourable, because any one mode invariably adhered to would soon have exhausted and destroyed that mode: whereas by turning occasionally to all the modes, and not sticking too long to any one particular mode, we had the good fortune to make upon the whole very favourable remittances."

We may mention another instance of a similar operation quoted by McCulloch :—

"In 1804, Spain was bound to pay to France a large subsidy, and, in order to do this, three distinct methods presented themselves. First, to send dollars to Paris by land; second, to remit Bills of Exchange directly to Paris; thirdly, to authorise Paris to draw directly on Spain. The first of these methods was tried, but was found too slow and expensive; and the second and third plans were considered likely to turn the exchange against Spain. The following method, by the indirect, or circular, exchange was therefore adopted:—A merchant, or *banquier*, at Paris, was appointed to manage the operation, which he thus conducted. He chose London, Amsterdam, Hamburg, Cadiz, Madrid, and Paris, as the principal hinges on which the operation was to turn; and he engaged correspondents in each of these cities to support the circulation. Madrid and Cadiz were the places in Spain from whence remittances were to be made, and dollars were, of course, to be sent where they bore the highest price, for which bills were to be procured on Paris, or any other place that might be deemed more advantageous. The principle being thus established, it only remained to regulate the extent of the operation, so as not to issue too much paper on Spain, and to give the circulation as much support as possible from real business. With this view, London was chosen as a place to which the operation might be chiefly directed, as the price of dollars was then high in England, a circumstance which rendered the proportional exchange advantageous to Spain.

"The business commenced at Paris, where the negotiations of drafts issued on Hamburg and Amsterdam, served to answer the immediate demands of the State; and orders were transmitted to these places, to draw for the reimbursements on London, Madrid, or Cadiz, according as the course of exchange was most favourable. The proceedings were all conducted with judgment, and attended with complete success."

12. The most gigantic operation, however, of this nature which ever took place, was the payment of the indemnity which France was obliged to pay to Germany, in consequence of the unfortunate result to her of the recent war. A most minute account of this operation has been lately presented to the National

Assembly, drawn up by M. Leon Say,[1] from which we take the following details, sufficient, we hope, to make a general outline of the operation intelligible.

By the definitive treaty of peace between Germany and France, signed at Frankfort, 10th May, 1871, France became bound to pay to Germany the sum of 5 milliards of francs, equal very nearly to 200 millions sterling, at the following dates—500 millions thirty days after the restoration of order in Paris; 1,000 millions in the course of 1871; 500 millions on the 1st May, 1872; and 3,000 millions on the 2nd March, 1874, together with 5 per cent. interest on the last 3 milliards.

Payment might be made in gold or silver, notes of the Banks of England, Prussia, Holland, Belgium, or first class Bills of Exchange.

The thaler was valued at 3·75 francs, and the German florin at 2·15 francs.

All bills not domiciled (*i. e.*, made payable) in Germany, were to be valued at their net proceeds, after deducting all costs of collection.

It was subsequently agreed that the portion of the Eastern Railway of France, situated in Alsace, should be accepted in compensation, or set off, to the debt to the amount of 325 millions; also that 125 millions should be received in notes of the Bank of France; and that the sum of 98,400 francs, which remained due to the city of Paris after the payment of the indemnity should be received as a set off against the debt of France.

Besides the indemnity payable by France, the city of Paris had to pay an indemnity of 200 millions of francs; 50 millions in specie; 50 millions in notes of the Bank of France; 37½ millions in two month bills on Berlin, at the exchange of 3·75 francs for the thaler; and 63 millions in bills upon London, at six and fifteen days' sight, at the exchange of 25·20 francs for the pound sterling.

The bills upon London were bought at the exchange of 25·3488; and those on Berlin at an exchange of 373·25; Paris, therefore, lost 14·88 cents on each pound sterling, and gained 1·75 cent on each thaler. The total cost of the indemnity was 1,965,240·30 francs, and, after it was all settled, there remained

[1] *Inserted in the Journal des Economistes, November*, 1874.

a balance of 98,400 francs in favour of Paris, which, as above said, was taken as a set off in favour of France.

The total operation was divided into two parts; the payment of the first two milliards, and that of the last three.

The first thing to be done was to put the Government in funds to effect the payment. To do this they negotiated a loan with the Bank of France of 1,530 millions, and created two public debts of 2,225,994,045, and of 3,498,744,639 francs.

The first loan was authorised by a law of 21st June, 1871; it was opened to public subscription on the 27th, and made payable in 17 monthly instalments.

The second loan was authorised by a law of 15th July, 1872; the subscription was opened on ihe 28th, and made payable in 21 monthly instalments.

On the 31st July, 1874, the first loan was fully paid up, and of the second only 7,136,000 francs remained due.

The Government being thus in funds commenced its exchange operations, and the debt was finally liquidated in the following way—

By Compensations	325,098,400 francs
By Bank Notes and German Money	742,334,079 francs
By Bills of Exchange.....	4,248,326,374·26 francs

To effect this stupendous operation all the great bankers in Europe were invited to assist, and in June, 1871, a London agency was opened, to assist and to receive subscriptions and bills. Other agencies were opened at Brussels, Amsterdam, Berlin, Frankfort and Hamburg. The Treasury gave its correspondents $\frac{1}{4}$ to $\frac{1}{2}$ per cent. commission on its first loan, and on the second 1 per cent. at first, which was reduced to $\frac{1}{2}$ and $\frac{1}{4}$. In the first loan the pound sterling was received at 25·30; the thaler at 3·75; the Francfort florin at 7 florins for 4 thalers; the marc banco at 2 marcs for one thaler; and Belgian paper at par. In the second loan the pound sterling was received at 25·43; the thaler at 3·76; the Francfort florin at 2·14$\frac{7}{8}$; the marc banco at 1·87$\frac{7}{8}$ for 1 thaler; and Belgian paper at par.

The exchange operations in London began in June, 1871, and lasted till September, 1873. The exchange was at 25·21$\frac{1}{4}$ in

June, but in consequence of acting somewhat too precipitately, it rose to 26·18¾ in October. In 1872 the lowest was 25·26¼ in April, and the highest 25·68½ in November. In 1873 the lowest was 25·33 in March, and the highest 25·57½ in June. The mean average of the whole was 25·4943.

In the course of the operation, the Treasury purchased 120,000 foreign bills, amounting in the whole to rather more than 4½ milliards. It opened subscriptions in foreign countries, and received foreign bills in payment of the loan opened in Paris. The subscriptions to the first loan comprised 213 millions of francs, and the subscriptions to the second 389 millions, in foreign bills.

M. Leon Say then gives some details respecting the three classes of payments above named as compensations; bank notes and German money; and Bills of Exchange.

The details respecting the compensation need not detain us; but with regard to the second it comprised the following items—

Notes of the Bank of France.....	125,000,000
German Bank Notes and Money	105,039,145·18
French Gold Money.....	273,003,058·10
French Silver Money	239,291,875·75

The German bank notes and money were collected from the sums which the German armies had brought with them in the invasion.

The third class, viz., Bills of Exchange, included German bills taken at their full value, 2,799,514,183·72 francs, and other foreign bills taken at their net proceeds, after deducting all charges, 1,448,812,190·54.

M. Leon Say then gives some details of the commercial operations undertaken to support these gigantic payments, but he at once acknowledges that it is impossible to explain their complete theory, for the very same reason which we have already given in the preceding chapter, § 8. He says—

"It is not possible to explain the operations of a portfolio which contains 120,000 bills of a value exceeding 4 milliards.

"There were all sorts of bills, from less than a thousand francs to more than five millions; some mentioned the purchase of merchandise; others appeared only to be fabricated for the purpose, and destined themselves to be covered at maturity by bills which were to be created to pay real transactions.

"Bank Credits, the paper circulating between head offices and branches, circular exchanges, payments for invoices, the remission of funds for the ultimate purchase of merchandise, the settlement of debts abroad to France under the form of coupons, shares, and commercial obligations, were all in these effects, making up the most gigantic portfolio which was ever brought together.

"After all this, to give a detailed classification is an absolutely impossible task. One can do no more than determine the classes of the operation, and make some general remarks on these classes, and on the importance and meaning of the business effected on each of them.

"Fifty years ago there were no other international operations than merchandise and money; merchandise, gold and silver, were the only subjects of export and import; the balance of commerce was settled in gold and silver. Every thing which was bought from the foreigner was paid for in gold or silver, if not in merchandise.

"One might find then in the statistics of the Custom House, *data* more or less exact, but at least real *data* of the course of business between two countries; but things have greatly changed within fifty years.

"There has appeared, especially within the last twenty-five years, in international commerce, what may be called a *new article of export*, an article which in every country has acquired a greater importance than any other, and which has had the result of completely distorting the meaning of Custom House returns. *This new article is Securities;* it is transmitting across the frontiers of different States the property of Capital by representation, which is easy to transport, viz., these Capitals of the form of bills of exchange, public funds, shares and obligations of railways and other companies.

"To understand the real course of international business, it is necessary to know not only the imports and exports of merchandise, the imports and exports of specie, *but also the imports and exports of Securities;* and this last class, which is the most important, and which is the key to the two others, escapes all kinds of returns."

Now this is exactly the doctrine we have been enforcing for so many years, and shews the profound absurdity of those Economists

who exclude the Incorporeal Property from the Title of Wealth, and of those who write books on Economics, and who are either ignorant of, or who ignore, its existence, for as we have said, in such a country as this it is the largest class of property of any. M. Leon Say then gives some notices of the imports and exports of merchandise, specie, and securities, which we need not enter on.

We will give, however, the final result of the operations, shewing the pieces in which the debt was liquidated—

	Payment of 2 Milliards.		Payment of 3 Milliards.
Notes of Bank of France	125,000,000	..	—
French Gold	109,001,502.85	..	164,000,555·25
French Silver	63,016,695·	..	176,275,180·75
German Money and Bank Notes	62,554,115·93	..	42,485,029·25
Thalers	312,650,509·01	..	2,172,663,212·03
Francfort Florins	25,816,752·37	..	209,311,400·42
Marcs Banco	116,575,592·13	..	148,641,398·27
Reichs Marcs	—	..	79,072,309·89
Dutch Florins	250,540,821·46	..	—
Belgian Francs	147,004,546·40	..	148,700,000
Pounds Sterling	624,699,832·28	..	12,650,000
	1,836,860,367·43	..	3,153,800,085·86

Now we observe that the whole of the above sum that was paid in French specie was 273 millions in gold, and 239 millions in silver, being somewhat over 20 millions sterling, whereas 4¼ milliards, or 160 millions sterling, were paid by Bills of Exchange. This fact is especially worthy of notice, because some financial writers maintained that if England had met with a similar misfortune, she could not have paid such a ransom, on account of the small quantity of specie in the country. These figures, however, shew that this is a complete delusion, as England could pay by bills, if ever she were driven to such a dire extremity, to a far larger amount than France; and we see that in France herself, where specie it alleged to abound, the part that was paid in specie was less than an eighth part of the payment by bills.

M. Leon Say notices, as one of the results of the war, the liquidation of the famous Bank of Hamburg, founded in 1619 in imitation of those of Venice and Amsterdam, for the purpose

of securing a uniform standard of mercantile payments, by means of credit in its books, which was called the marc banco.

After the establishment of the German Empire, it was resolved to adopt a gold currency; and the marc banco of Hamburg (which was absorbed in the Empire) violated the new imperial system in two ways; first it was a local money, and all local monies were to disappear before the imperial currency; and it was silver, whereas the imperial standard was gold.

The marc banco, which was worth a half thaler or 1·87½ franc, was abolished by law, and the reichs thaler imperial, of 1·25 franc, was substituted. The bank was ordered to liquidate all its accounts in fine silver by the 15th February, 1873; and after that, any one who had claims against the bank was credited with a half thaler for the marc.

The preceding are examples of loans raised in this country with the consent of the Government, and, consequently, every care was taken to have them transmitted in such a way as to produce as little disturbance of the exchanges as possible. But it has become very common for foreign Governments to raise loans in England, without any sanction of the Government at all. During the late unhappy war in America, both the belligerent Governments sent over enormous quantities of their securities or stock, to be disposed of for specie in the European markets for what they would fetch, and the proceeds were remitted either in cash or bills. So, also, vast numbers of foreign companies of all sorts seek to raise capital in England.

There is, lastly, to be considered, the sums required by residents abroad for their expenditure. The drafts of the great English and Russian families, on their bankers, at home, affect the exchanges exactly in the same manner as any other drafts.

On Monetary and Political Convulsions as influencing the Exchanges.

13. As an immediate consequence of the preceding principles, it follows that a political or monetary convulsion in any country will immediately turn the foreign exchanges in favour of that country, if such an event is not prevented by the issue of an inconvertible paper currency. The reason is plain, any political or monetary convulsion is attended by a great destruction of

credit. Now, that credit, while it existed, performed the functions of money, but as soon as it is destroyed, there is an intense demand for money to fill the void. Money rises enormously in value. Multitudes of persons are obliged to sell their goods at a sacrifice. The consequence is that money, having risen greatly in value, both with respect to goods and debts, an immense quantity will flow in from neighbouring countries. Thus, in 1801-2 there was a great commercial crisis at Hamburg. The rate of discount rose to 15 per cent. That immediately drained the bullion from the Bank of England. In 1825 there was a great commercial crisis in England. For a considerable period the bank, by making extravagant issues at a low rate of discount, had turned the foreign exchanges against the country. But, no sooner did the crisis occur in December, than the foreign exchanges immediately turned in favour of it. Exactly the same thing happened in 1847. No sooner had the crisis in that year fairly set in than the exchanges turned in favour of the country. In the French revolution in 1793, and subsequent years, immense quantities of inconvertible paper were issued, which kept all the French exchanges in a very depressed state. In 1796 this paper currency was annihilated, and the exchanges immediately turned in favor of France. The same thing was observed in 1848. Things were to be had so cheap then that multitudes of persons went over to buy.

On the Means of Correcting an adverse Exchange.

14. The preceding paragraphs shew upon what complicated causes these great movements of bullion depend, which produce such important consequences. There are three great Economic Quantities—PRODUCTS—BULLION—and DEBTS—all seeking to be exchanged, all flowing from where they are cheaper to where they are dearer.

But all this vast superstructure of credit—this mighty mass of exchangeable property—is based upon GOLD BULLION. Different methods of doing business require different quantities of bullion; but, however perfect and refined the system may be, we must come at last to a basis of bullion, as its moderator and regulator. If, therefore, the bullion be suffered to ebb away too

rapidly, the whole superstructure is endangered, and then ensues one of those dreadful calamities—a monetary crisis.

We have endeavoured to explain the different causes which produce an adverse exchange, so that if one takes place the proper corrective may be applied. If it be caused by a depreciated currency, there is no cure but a restoration of the currency to its proper state.

When, however, it arises from a balance of indebtedness from commercial transactions, there are but two methods of correcting it—an export of produce, and A RISE IN THE RATE OF DISCOUNT.

It used to be a favourite doctrine that an adverse exchange was in itself an inducement to export, on account of the premium at which bills could be sold. What truth there was in this doctrine can only be known to those actually engaged in such operations. But a very much more certain means of producing an export of goods is *a lowering of their price.*

This was one of the fundamental objects of the framers of the Bank Act of 1844. They truly observed that the prices of goods had often been unduly inflated by the excessive creation of credit, while gold was rapidly flowing out of the country. Thus, when prices were kept too high here, nothing but gold would go. One object of that Act was, therefore, by causing a gradual and compulsory contraction of credit as bullion ebbed away, to lower the prices of goods and encourage an export of them.

The reasoning of the framers of the Act was undoubtedly correct in that respect. But the only thing is, whether the same object might not be attained another way. This is not the place to discuss fully the policy of that Act, because there are several other conflicting theories involved in it, which we cannot fully discuss until we come to the consideration of a commercial crisis.

It is sufficient to say here, that all the objects of that Act are obtained by paying proper attention to raise the rate of discount rapidly as bullion flows out. If the Directors of the Bank had understood and acted upon that principle, there never would have been any necessity for the Act. It is true we cannot blame them too much, as before 1833 they were prohibited by law from raising it above 5 per cent., a rate wholly inadequate

to check a great outflow; and for many years there was a great prejudice against doing so.

We have observed that a difference in the rate of discount between any two countries more than sufficient to pay for the transmission of bullion, causes a flow of bullion from one to the other. But it must be remembered that, as all the cost of the transmission both ways falls upon the operator, the difference will be more considerable than might appear at first sight. And, if they be three months' bills, of course the profit reaped will be only one-fourth of the apparent difference. Thus, Mr. Goschen says, there must be a difference of 2 per cent. between London and Paris before the operation of sending gold over from France for the sake only of the higher interest will pay. And between other continental cities, of course, the difference may be much greater.

But whatever the difference may be, the *method* is absolutely certain. Directly the rate of discount rises here, people cease to export bullion from here, and the continental bankers and brokers increase their demand for English bills. And as the rate rises the demand will increase, until at last the price reaches the specie point, and gold begins to flow in; and as the rate rises more, more powerful will be the attraction, until at last the necessary equilibrium is restored between bullion and credit.

15. We must, however, notice one very remarkable occasion on which this law did not seem to act, and that is during the great monetary crisis and panic of 1866.

Upon examining the table given afterwards, shewing the variations in the rates of discount by the Banks of England and France, from 1857 to 1866, it will be seen that very often they were exactly the same, sometimes a difference of $\frac{1}{2}$ per cent.; and very seldom, indeed, more than one per cent. difference between them. Since the beginning of that year, however, the difference was constantly 2 per cent., and it gradually increased to 3, 4, and even 6 per cent. All the while that the storm was visibly gathering and then raging in England, the Bank of France was in a state of the greatest serenity. On March 21st, when discount in England for a very short period was lowered to 6 per cent., in France it was $3\frac{1}{2}$, and while it gradually rose here to 7, 8, 9, and 10, it only advanced to 4 per cent. in France, and

remained steadily at that rate for a month. More than that, while these high rates in England were unable to prevent a severe foreign drain, the Bank of France was rapidly gaining large quantities of bullion, while discount was only 4 per cent. In June, while discount was 10 per cent. here the bullion in the vaults of the Bank was only £11,878,775, the bullion in the Bank of France exceeded £22,000,000.

This most remarkable and, indeed, unprecedented state of matters actually led many persons to question the truth of the law, that a high rate of discount attracts bullion from foreign countries, and keeps it in the country, and to maintain that the rates ought to be quite independent of each other. To suppose, however, that a law is false which is founded on the widest and long-continued experience in every country, shews a hasty style of argument. When the moon ceases to sway the tides, then—but not till then—will the rate of discount cease to attract the flood of bullion. To argue from the single case of this crisis that the law is false, is just as absurd as if a man, seeing a bar of iron falling down to the earth, and a balloon rising up from the earth, were to maintain that the law of gravitation is false. Or if he were to say that there is no such thing as gravity, because a drop of water, or a fly, can adhere to the ceiling. The law itself is perfectly true, and acts universally, but there may be *other* circumstances which, on particular occasions, may counteract its effects. The action of the moon on the tides is constantly counteracted or aggravated by furious gales of wind. In the chapter on Exchanges we pointed out that there are *several* causes which influence the flow of bullion, which, at any time, may act in the same or opposite directions. Of these the rate of discount is *only one,* and at particular times it may be overpowered by some *other* consideration. Now, with respect to the rate of discount here, the Money Market was liable to more severe disturbance than in France, on account of the multitude of new companies, especially the new Finance Companies, and also the connection of so many of our Banking Companies with the East. The quantity of "finance" paper afloat created the greatest uneasiness here for a very considerable time, and this was well known abroad. It was fully expected that there would be great disasters among the banks; and, as if these failed, it was expected

that merchants would fail too, the rate of discount failed to attract supplies, because it was feared that the whole principal would be lost. In consequence of this, great quantities of long-dated bills on England were hurried over here and turned into cash, which was exported at any sacrifice. It was just the same in 1839. It was generally expected then that the Bank of England was going to stop payment. The consequence was, as we have stated elsewhere,[1] that long-dated bills held abroad were hurried over here for immediate realisation; and the proceeds withdrawn as speedily as possible. This, of course, would equally prevent specie being imported here, notwithstanding the high rate of discount. It is perfectly well known that this cause operated to a great extent during the crisis of 1866. However, when all danger of this had passed away, the rate of discount produced its natural effect, and gold rapidly flowed in, thus indicating the entire truth of the law.

With respect to the Bank of France the explanation is also easy. There was no commercial crisis there, but, unhappily, strong expectations of war. Consequently, mercantile enterprise was curbed, and specie naturally flowed into the vaults of the Bank of France. Also, in anticipation of war, the Government of Italy suspended cash payments and adopted paper money. This, of course, produced its natural effect in driving specie out of the country, and it also naturally first went to the Bank of France.

These circumstances are quite sufficient to explain the remarkable phenomena alluded to.

But it is much to be regretted that no Parliamentary inquiry was made into the circumstances of the panic, as no doubt much valuable information would have been elicited about a phenomenon so unusual.

The state of indebtedness, however, may be so great as to deepen an adverse exchange into a monetary crisis, but what may become advisable to be done in such an emergency, we must defer discussing until a future chapter, when the policy of the Bank Act of 1844 is examined.

[1] *Theory and Practice of Banking*, ch. 9, § 75.

CHAPTER XVI.

ON SOME THEORIES OF CURRENCY.

1. It now becomes our essential and most important duty to investigate some Theories of Currency, which have acquired great celebrity, not only from their historical interest, as having led to some of the most extraordinary and heartrending public calamities on record, but because they are still extensively believed in at the present day. It is of essential importance, not only to lay the true foundations of monetary science, but also to point out the fundamental fallacies upon which some specious, but fatally delusive, theories rest, which have brought the most disastrous consequences upon those nations which have adopted them, as will always be the case when the eternal laws of nature are systematically and perseveringly violated.

2. The first of these theories we shall designate as LAWISM, not because John Law was the original deviser of it, but because he was the first who wrote the most formal treatise on it, and he had the opportunity of carrying it out on the most extensive scale. His name, therefore, must always be most prominently associated with it; and it is one so specious, but so dangerous, and so widely prevalent at the present time, that it requires to be branded with a distinctive name, and to be combated with all the power of argument that can be brought against it.

3. The question shortly stated is this. All persons, except those who advocate an inconvertible paper currency, agree that a paper currency must represent some article of value, and bullion has been generally chosen for that purpose. Now, the idea has occurred to a great many persons—If it is only necessary that a paper currency should represent some article of value, why should it not represent any or all articles of value, such as land, corn, silk, or any other commodities, and, among others, the public funds? And this has actually been tried in several

instances, yet they have universally failed, and in many cases have been attended with the most dreadful calamities. Now, as this has uniformly happened, and, as we shall shew further on, it must happen, it necessarily follows that there must be some radical error in the principle, and that it must violate some great law of nature. And this is beyond all comparison the most momentous problem in Economics—Why is it improper to issue a paper currency on any other basis than that of bullion? All the most eminent British statesmen have instinctively resisted such proposals, although repeatedly pressed to do so. No doubt it has been a most fortunate instinct for the country; but all their reasoning on the subject, if only pursued to their legitimate consequences, tend to that result. The Bank Act of 1844 was the first occasion on which a small bit of this theory was introduced, which, if only followed out to its legitimate conclusion, would produce in this country the horrors of the Mississippi scheme in France. But though the British Parliament, by a blind, unreasoning instinct, has always, with the exception just named, resisted such fatal advice, this will not satisfy the demands of science. Science imperatively demands a reason *why* such a plan is wrong; she will not be satisfied with a simple dogmatic assertion that it is wrong, even though that dogma may be right, but she must know the reason why; and, until a true, scientific reason is given why such plans are fatal, there will be a constant demand for them.

4. It is, moreover, the thing which has brought the name of Law into such unhappy notoriety. Law has, in many respects, very great merit as a writer. In many respects he had clearer and sounder views on monetary science; he had infinitely more practical insight and scientific knowledge of what he was writing about, than the most eminent of modern political economists. In his various writings is to be found the refutation of all the absurd follies of the Government and of the Bank of England in 1811. But all this was marred by a single defect. He was the great advocate of what is now the popular cry—basing a paper currency upon any article of value beside bullion. The only difference between him and our greatest statesmen is that he carried out their arguments to their legitimate conclusion. He had the opportunity of carrying this theory

into effect, and the result has been to obscure all his other merits, and brand him for ever as a charlatan. What, then, was his error?

5. Upon sifting his theory to discover his error, we shall obtain one of the most beautiful triumphs of pure reasoning to be found in any science. We shall find that the plausible scheme, which we shall designate by his name, is founded upon a direct contravention of the fundamental conception of the nature of a Currency which we have established in this work, and the proposition which directly flowed from it, viz., *that where there is no* DEBT, *there can be no* CURRENCY. We shall find that these awful monetary cataclysms which have shaken nations to their foundations, producing calamities more fell than famine, tempest, or the sword, have been brought about by attempting to carry into practice a philosophical fallacy which involves a contradiction in terms.

6. It is impossible to say who first invented the theory we are going to notice; in fact, it must have sprung up indigenously among almost any people who began to form theories of Paper Currency. Several persons about the same time seem to have hit upon it. The earliest we know of was a certain Mr. Asgill, a Member of Parliament, who paid much attention to commercial questions. The most notorious precursors of Law were Dr. Hugh Chamberlain, who brought forward a rival scheme to the Bank of England in 1693, and Mr. Briscoe, one of the chief promoters of the Land Act in 1696. Chamberlain's ideas will be noticed a little further on. He strongly accused Law of having stolen his ideas from him, which Law strenuously repudiates, and points out the distinction between them, and it must be allowed that Law's ideas were not so extravagant as Chamberlain's. Law first published his theory in a tract, called "Money and Trade Considered," at Edinburgh, in 1705. He was the son of a goldsmith, and of dissipated habits, but of an extremely acute intellect; and, up to a certain length, his views are sagacious and correct—much more so, indeed, than those of many writers of the present day. He observed the extreme poverty and barbarousness of Scotland, which he thought might be cured by bringing an additional quantity of money into the

country; and, as silver was scarce, he attempted to devise a scheme for providing a substitute for it.

7. He begins by many very sound and acute remarks on the value of commodities, and the causes of their change of value. He describes the qualities which fitted silver to be used as money, above every other commodity. He attributes the very inconsiderable trade of Scotland to the small quantity of money she possessed. This is the first fundamental fallacy, because the fact was, it was just the reverse; Scotland had little money *because* she had little trade. He, however, perceived the fallacy of lowering interest by law. He then goes on to consider the various means which have been employed to increase the quantity of money. He says that some countries have raised money in the denomination; some have debased it; some have prohibited its export under the severest penalties; some have obliged traders to bring home bullion in proportion to the goods they imported. But he says that all these measures have been futile and vain, and none of them have been found to increase or preserve money. He then says that the only effectual method hitherto discovered for the increase of money, was the erection of banks. He then describes various banks. Some made it a principle to issue no more notes than they had of actual bullion. He then mentions the Bank of England, and the superiority of its notes over those of the goldsmiths. He then describes the Bank of Scotland, and says that it issued notes to four or five times the value of the money in the Bank, which he very justly says were equivalent to so much additional money. He then points out the absurdity of supposing that raising the denomination of the money added to its value, that if the shilling was raised to 18d., it paid debts by two-thirds of what was due, but did not add to the money; "for it is not the sound of the denomination, but the value of the silver is considered." The wonderful philosophers of 1811, no doubt, looked down with prodigious disdain upon Law, but they might have studied him with advantage. He then points out, with much detail, the fraud and inutility of tampering with the currency. He describes the additional effect which credit may give to money; but says that credit which promises a payment of money, cannot well be extended beyond a certain proportion it ought to have with

the money. Nothing can be more judicious and sound than his remarks upon credit—that it must always vary in proportion to the metallic basis it is built upon; and up to this point, his sagacity and penetration are in advance of the doctrines of a century later; but here is the boundary, after which he plunges into that fatal and delusive fallacy, which is the distinctive feature of what we denominate LAWISM.

8. Thinking that money was so scarce in Scotland that any credit that could be built upon it would be insignificant, he says:—

"It remains to be considered, whether any other goods than silver can be made money with the same safety and convenience.

"From what has been said about the nature of money, it is evident that *any other goods which have the qualities necessary in money,* MAY BE MADE MONEY EQUAL TO THEIR VALUE with safety and convenience. There was nothing of humour or fancy in making silver to be money; it was made because it was thought best qualified for that use.

"I shall endeavour to prove that another money may be established, with all the qualities necessary in money in a greater degree than silver."

9. He then proceeds to shew at great length that silver had some peculiarities that disqualified it from being the best substance to form money of; that it varied in value; that it had increased much faster in quantity than the demand for it, and had, therefore, fallen much in value. In fact, he tries to prove that silver had varied in value more than any other kind of goods, within the last two hundred years; that goods would always maintain a uniformity of value, because they only increased in proportion to the demand; that land would always rise in value, because the quantity would always remain the same, but the demand would continually increase; but that silver would always fall in value, as the quantity increased faster than the demand.

10. Law then proceeds to deny that he had taken his ideas from Chamberlain, of which the latter had accused him; and it

must in candour be admitted, that his ideas were many degrees less mad than those of Chamberlain. Law asserts that he had formed his schemes many years before he had seen any of Chamberlain's papers—"Land, indeed, is the value upon which he founds his proposals, and 'tis upon land that I found mine; if for that reason I have encroached upon his proposal, the Bank of Scotland may be said to have done the same. There were banks in Europe long before the doctor's proposal, and books have been written on the subject before and since. The foundation I go upon has been known so long as money has been lent on land, and so long as an heritable bond has been equal to a quantity of land."

11. The difference between Chamberlain's theory and Law's was this. Chamberlain maintained that if land was mortgaged for 100 years, it was a good security for 100 times its annual value: so that, if a man had landed property worth £1,000 a-year, and if he mortgaged it for 100 years to the State, the State might issue notes to him to the amount of £100,000, which were to be declared equal to value in silver, and made legal tender for their nominal value. Now, if this theory be true, there is no good reason why land should be pledged for only 100 years; why not for one million years? which would do the thing on a somewhat more magnificent scale. But what need of stopping there? Why not pledge it to all eternity? And then every inch of property might be covered with paper notes, and they might be piled high enough to reach the moon, where the deviser of this scheme would probably find his lost wits. Law properly points out that the fallacy of this theory was, that Chamberlain assumed that the value of £100 to be paid 100 years hence, is still £100. He says, "No anticipation is equal to what already is; a year's rent now is worth fifteen years' rent fifty years hence, because that money lent out at interest by that time will produce so much." But, says Lord Macaulay, "On this subject Chamberlain was proof to ridicule, to argument, even to arithmetical demonstration. He was reminded that the fee simple of land would not sell for more than twenty years' purchase. To say, therefore, that a term of 100 years was worth five times as much as a term of twenty years, was to say that a term of 100 years was worth five times the fee simple; in other words, that a

hundred was five times infinity. Those who reasoned thus were refuted by being told they were usurers; and it should seem that a large number of country gentlemen thought the refutation complete."

12. Law's theory was to calculate the value of the fee simple of the land at twenty years' purchase, and to coin notes to the value of that amount, and advance them to the owner of the land. This plan, therefore, had a limit, however absurd it was. It was bounded, in the first instance, by the value of the land expressed in silver money, but Chamberlain's had positively no limit at all to carry it out to its full length; the advance might be made to infinity; consequently, in mathematical language, we should say that Chamberlain was *infinitely* more mad than Law.

13. Law shewed that notes issued upon Chamberlain's plan would immediately fall to a heavy discount; but yet he says, that though £500 of these notes were only equal to £100 in silver, yet the nation would have the same advantage by that £500 in notes, as if an addition of £100 had been made to the silver money.

"*So far as these bills fell under the value of silver money, so far would exchange with other countries be raised.*[1] And if goods did not keep their price, *i. e.*, if they did not sell for a greater quantity of these bills, equal to the difference betwixt them and silver, goods exported would be undervalued, and goods imported would be overvalued.

"The landed man would have no advantage by this proposal, *unless he owed debt*, for, though he received £50 of these bills for the same quantity of victuals, he was in use to receive £10 silver money; yet that £50 would only be equal in value to £10 of silver, and purchase only the same quantity of home or foreign goods.

"The landed man who had his rent paid him in money, would

[1] This is the first occasion that we are aware of on which the great principle, that a depreciation of the paper currency would produce a fall in the foreign exchanges, which was so ardently contested in 1811, and subsequent years, is asserted. And it has all the more merit, that it is a *prediction* and not an *observation*.

be a great loser, for, by as much as these bills were under the value of silver, he would receive so much less than before.

"The landed man who owed debt, would pay his debt with a less value than was contracted for, but the creditor would lose what the debtor gained."

Oh! that the philosophers of 1811 had only pondered over this extract from John Law.

14. Law then shews that—

"Notwithstanding any Act of Parliament to force these bills, they would fall much under the value of silver; but allowing that they were at first equal to silver, it is next to impossible that two different species of money shall continue equal in value to one another.

"Everything receives a value from its use, and the value is rated according to its quality, quantity, and demand.. Though goods of different kinds are equal in value now, yet they will change their value from any unequal change in their quality, quantity, or demand.

"And as he leaves it to the choice of the debtor to pay in silver money, or bills, he confines the value of the bills to the value of the silver money, but cannot confine the value of the silver money to the value of the bills, so that these bills must fall in value as silver money falls, and may fall lower, may rise above the value of these bills, but these bills cannot rise above the value of silver."

15. Law succeeds, with great skill and acumen, in exposing the wild insanity of Chamberlain's plan, and truly predicts the results which would follow from it, or at least some of them, for there are many important ones he has omitted. The exact consequences which he predicted were manifested in Ireland, and England a century later; and the sentences we have quoted, if we did not know their origin, might have been supposed to have been written to rebuke the folly of the Directors of the Banks of Ireland and England, and the mercantile witnesses of 1804 and 1810. But having demolished Chamberlain, he comes to his own proposal, which he says is "to make money of land equal to its value, *and that money to be equal in value to silver money, and not liable to fall in value as silver money falls.*"

He then says, "ANY GOODS THAT HAVE THE QUALITIES NECESSARY IN MONEY, MAY BE MADE MONEY EQUAL TO THEIR VALUE. Five ounces of gold is equal in value to £20, and may be made money to that value; an acre of land, rented at two bolls of victual, the victual at £8, and land at twenty years' purchase, is equal to £20, and may be made money equal to that value, for it has all the qualities necessary in money."

16. In this sentence is concentrated the whole essence of that eternal delusion, so specious and plausible, and so fatal, which we designate as LAWISM. It is, indeed, nothing but the stupendous fallacy *that money represents commodities, and that paper currency may be based upon commodities.* This delusion is deeply prevalent in the public mind at the present day, and probably there are few persons, except those who have studied the true philosophical principles of Political Economy, whose views are not deeply tainted with this infection. No man who does not thoroughly understand the great fundamental doctrine established by Turgot and others, *that money does not represent commodities,* can ever have sound ideas on this subject. MONEY DOES NOT REPRESENT COMMODITIES AT ALL, BUT ONLY DEBT, OR SERVICES DUE, WHICH HAVE NOT YET RECEIVED THEIR EQUIVALENT IN COMMODITIES. Now, the views of Law are much more extensively prevalent than is generally supposed. All those who think that there is any necessary connection between the quantity of money in a country and the quantity of commodities in it are influenced by them. Take the case of a private individual. Is there any necessary relation between the quantity of money he retains, and the quantity of commodities he purchases? The quantity of money he has, is just the quantity of debt—of services due to him—which he has *not yet* parted with for something else. It is the quantity of power of purchasing commodities he has over and above what he has already expended. And the quantity of money a nation possesses is simply the quantity of accumulated industry it possesses over and above all commodities, but they have no relation whatever to each other. Now, money does not represent commodities, but it represents that portion of a man's industry which is preserved for future use. Whatever a man earns is the fruit of his industry, money included; and none of these separate items *represents*

anything else, though it may be *exchanged* for other things. Now, the value of money depends upon its relations to what it represents, namely, debt, and not to commodities. If money, or currency, increases faster than debt, or services due, it immediately causes a diminution of its value. If debt increases faster than money or currency, then the value of money is raised. The infallible consequence, therefore, of an increase of currency, without a corresponding increase of debt, is to change the existing proportion between debt and currency, and to cause a depreciation of the latter commensurate to the changed proportion. The necessary and inevitable consequence, then, of issuing vast quantities of paper currency on the assumed value of property, is simply to cause a total subversion of the foundation of all value and of all property, and to plunge every creditor into irretrievable ruin.

17. In fact, a moment's consideration will shew that the theory of basing a paper currency on commodities, involves this palpable contradiction in terms, THAT ONE CAN BUY COMMODITIES AND ALSO HAVE THE MONEY AS WELL. When a man buys commodities with money, he gives either a portion of his own industry represented by that money, or a portion of some one else's industry who gave him the money. But it is quite clear *that he cannot buy the commodities and keep his money as well.* It is exactly the same with a nation. A nation cannot buy commodities and have the money it bought them with as well, which is the principle necessarily involved in issuing paper currency as the representative of commodities. But the money of the nation is the mode and form in which the accumulation of industry which has not yet been spent in commodities is preserved; and if a nation wants other commodities besides what it has got, it must pay for them either with money, or with the goods it has already. The idea of basing paper currency upon commodities is just as wild and absurd as if England were to sell her cotton goods to America for coin, and then demand back her cotton goods. The only result of such an attempt carried out into practice must be the most tremendous convulsions, and destruction of credit and all monetary contracts.

18. Law, as we have seen, immediately saw through it, and exposed the ridiculous absurdity of Chamberlain's proposal.

His own was that the value of all the land in Scotland should be estimated at 20 years' purchase, and that a parliamentary commission should be appointed with power to issue an inconvertible paper currency to that amount. He says—"The paper money proposed will be equal in value to silver, for it will have a value in land pledged equal to the same sum of silver money that it is given out for. . . . This paper money will not fall in value, as silver money has fallen or may fall."

19. We must, therefore, be careful to be just to Law. He was no advocate of an unlimited inconvertible paper currency. Quite the reverse. But seeing that a convertible paper currency could only be based upon bullion to a certain limited extent, preserving its equality in value with bullion, his idea was to base a paper currency upon some other article of value. And he thought that it might preserve its equality in value to silver on an independent basis. His idea was, that it was only necessary to have it represent some article of value. But this attempt was contrary to the nature of things. His paper currency, though avowedly based upon things of value, had exactly the same practical effects as if it had been based upon silver. It became redundant, and swamped everything. And the reason is plain. It was a violation of that fundamental principle we have obtained—"*Where there is no debt there can be no currency.*" And the fresh quantities of currency issued on such a principle only represent the previously existing amount of debt, and then suffer a necessary diminution in value. The necessary and inevitable consequence, then, of issuing vast quantities of paper currency on the assumed value of property, is simply to cause a total subversion of the foundation of all value, and of all property, and to plunge every creditor into irretrievable ruin.

20. To give a full account of Law's banking career in France, would far exceed our limits, and to give an imperfect one would be of no use. We must, therefore, content ourselves with referring those of our readers who want information on the subject to our *Dictionary of Political Economy*, Art. *Banking in France*, where a full account of Law's scheme is given. It may be sufficient to say that his career, like his writings, is divided into two distinct portions. His writings are on Banking and PAPER

CREDIT, and his scheme for PAPER MONEY, which are quite distinct from each other. Nothing can be sounder, or more judicious than the first. He clearly saw that paper credit must be limited by specie—his scheme was to create a PAPER MONEY, beyond the limits of Paper Credit based on specie, which he expected would maintain an equality of value with specie. Multitudes of people have thought the same, and multitudes of people believe in it to the present hour. In 1705 the Parliament of Scotland fortunately turned a deaf ear to Law's specious proposal of creating Paper Money based upon land. In 1855 the representatives of commerce in the same city which had rejected Law's plan 150 years before memorialised the Government, and "do most emphatically object to the plan of restricting the security (upon which the paper currency is based) to the possession of gold alone," which is simply Lawism.

Nothing could be more extraordinary than the restoration of prosperity caused by the foundation of Law's Bank in 1716. It is probably one of the most marvellous transitions from the depth of misery to the height of prosperity in so short a space of time in the annals of any nation. And, if Law had confined himself to that he would have been one of the greatest benefactors any nation ever had. It was only when, after three years he had attained the very pinnacle of success, that he determined to carry out his scheme of PAPER MONEY, which was the famous Mississippi scheme.

The next example of Lawism was the Ayr Bank. The proprietors of this Bank were enormously wealthy, and, because they were so, they thought that their known wealth would sustain the credit of any amount of paper issues. But, alas! their experience too fully and fatally verified the sagacity of the directors of the Bank of Scotland, who, in 1727, in answer to proposal for enlarging their credit, said—"For the quota of credit in a banking company *must be proportionate to the stock of specie in the nation*, learned and understood by long experience, and not extended to a capital stock subscribed for, which cannot in the least help to support the company's credit, if the specie of the nation decay." This doctrine contains the refutation of many wild schemes, and the true plan of regulating a paper currency, is simply to discover how a certain proportion shall be maintained between specie and credit.

21. The third great outburst of Lawism took place in the same country that witnessed his first exploits. In preparation for it, Law's "Money and Trade Considered" was translated into French in 1789, as if all the memory of the great catastrophe sixty-nine years before had perished. The National Assembly had confiscated the property of the Church, but, instead of yielding a revenue, it cost the nation £2,000,000 a year more than it produced, and in a few years augmented the public debt by £7,000,000. The property seized was valued at £80,000,000. The expense of management required that it should be sold, but no purchasers could be found; for all persons in that terrible political earthquake wished to have their property in as portable a shape as possible, and few were willing to trust to a revolutionary title. In this dilemma, the municipalities agreed to purchase a considerable portion of it, in the first instance, and resell it in smaller portions to individuals. But, as there was not specie enough to complete the sale, they issued their promissory notes to the public creditor, to pass current until the time of payment came; but, when they became due, the municipalities had no means of discharging them. To meet them, the Assembly, in the spring of 1790, authorised the issue of £16,000,000 of assignats on the security of the land. In September, further issues to the amount of £32,000,000 were authorised. The additional issues were warmly opposed by Talleyrand and other leaders, who predicted their depreciation; but Mirabeau strongly supported them, denying the possibility of their depreciation, saying—

"It is vain to assimilate assignats secured on the solid basis of these domains to an ordinary paper currency possessing a forced circulation. They represent real property, the most secure of all possessions, the land on which we tread. Why is a metallic circulation solid? Because it is based upon subjects of real and durable value, as the land, which is directly or indirectly the source of all wealth. Paper money, we are told, will become superabundant; it will drive the metallic out of circulation. Of what paper do you speak? If of a paper without a solid basis, undoubtedly; if of one based on the firm foundation of landed property, never. There may be a difference in the value of a circulation of different kinds; but that arises as frequently from the one which bears the higher value being run after, as from the one which stands the lower being shunned—from gold being

in demand—not paper at a discount. There cannot be a greater error than the terrors so generally prevalent as to the over-issue of assignats. It is thus alone you will pay your debts, pay your troops, advance the revolution. Re-absorbed progressively, in the purchase of the national domains; this paper money can never become redundant, any more than the humidity of the atmosphere can become excessive, which descends in rills, finds the river, and is at length lost in the mightly ocean."

22. Although these assignats bore 4 per cent interest, they had become depreciated in June, 1790; by June, 1791, they had lost one-third of their value. In September, 1792, further issues were decreed. The two preceding Assemblies had authorised assignats to the amount of 2,700,000,000 francs, equal to £130,000,000, to be fabricated, of which only 200,000,000 francs remained unspent. On the 11th of April, 1793, the Convention decreed six years' imprisonment in chains to any one who bought or sold assignats for any sum in specie different to their nominal value, or made any difference between a money price and a paper price in payment of goods. Vain effort! In June the assignat had fallen to one-third of its value, and in August to one-sixth. The exchange with London fell exactly in a corresponding ratio with the depreciation of the assignat at home. In June, 1791, it fell to 23; in January, 1792, to 18; in March, 1793, to 14; in June, 1793, to 10; on the 2nd of August it was as low as 4¼; on the 18th of October it had risen to 8; but after that it ceased to be quoted at all. Cambon, the Minister of Finance, proposed a further immediate issue of 800,000,000 of francs, equivalent to about £33,000,000, in addition to the quantity already issued. The public domains he calculated at £350,000,000. Hence, upon the Theory of Law and Mirabeau, there was an ample margin, and the assignats should not have been depreciated below the value of silver; and, in fact, according to them, it was impossible they should. Wonderful commentary upon the wisdom of the philosophers, who maintain that if a paper currency only represents *value*, it cannot be depreciated!

23. We must refrain from detailing the terrible misery caused by the forcible issues of assignats, which were legal tender at

their nominal amount, the destruction of debts, the famine from the scarcity of provisions, the laws of the maximum, the penalty of death enacted against all who should keep back their produce from the market. All specie disappeared from the country and from circulation; those who possessed any, not deeming it secure from revolutionary violence, exported it to London, Hamburg, Amsterdam, and Geneva. But many persons stoutly maintained, in pamphlets, that it was not the paper which was depreciated, but the specie which had risen.

24. The intolerable misery caused by this state of things, induced the Government which succeeded the Reign of Terror to make an attempt to withdraw a portion of the assignats from circulation, by *demonetizing* them, that is, depriving them of their quality of money, and forcing their holders to receive payment in land for them. But when a man wanted to buy food to eat, what was the use of giving him land? The report that a portion of the assignats were going to be demonetized sent down their value still lower, and a decree against it was obliged to be passed to appease their holders. All sorts of plans were devised to withdraw them from circulation; lotteries, tontines, a land bank, where they were to be lodged and bear 3 per cent. interest. But the constant issue of them, required for the necessary payments of the State, rendered all such attempts useless.

25. In January, 1796, the assignats in circulation amounted to forty-five milliards, or about £2,000,000,000, and the paper money had fallen to one-thousandth part of its nominal value. The Government then determined to issue *territorial mandates*, at the rate of 30 assignats to one mandate, which were to be exchangeable directly for land, at the will of the holder, on demand. The certainty of obtaining land for them made them rise for a short time to 80 per cent. of their nominal value; but necessity compelled the Government to issue £100,000,000 of these mandates secured upon land, supposed to be of that value. This prodigious issue sent the mandates down to nearly the same discount as the assignats were, and, consequently, as one mandate was equal to 30 assignats, the latter had fallen to nearly the thirty-thousandth part of their nominal value. At length on the 16th of July, 1796, the whole system was demolished at a blow.

A decree was published that every one might transact business in the money he chose, and that the mandates should only be taken at their current value, which should be published every day at the Treasury. Two days afterwards it was decreed that the national property remaining undisposed of should be sold for mandates at their current value. As a matter of course, the public creditors received payment of their debts in the same proportion.

26. No sooner, however, was this great blow struck at the paper currency, of making it pass at its current value, than specie immediately re-appeared in circulation. Immense hoards came forth from their hiding places; goods and commodities of all sorts being very cheap from the anxiety of their owners to possess money, caused immense sums to be imported from foreign countries. The exchanges immediately turned in favor of France, and in a short time a metallic currency was permanently restored. And during all the terrific wars of Napoléon the metallic standard was always maintained at its full value.

27. One thing, however, we cannot help noticing. When describing the history and effect of the assignats, nothing can be more clear and correct than the narrative of Sir Archibald Alison. He sees clearly that a difference in value between the assignat and specie was truly a discount, or fall in the value of paper. Thus he says[1]:—

"They for some time maintained their value on a par with the metallic currency. By degrees, however, the increasing issue of paper currency produced its usual effect on public credit; the value of money fell, while that of every other article rose in a high proportion, and at length the excessive inundation of fictitious currency caused a universal panic, and its value rapidly sank to a merely nominal ratio. Even in June, 1790, the depreciation had become so considerable as to excite serious panic."

Again, speaking of 1791, p. 305:—

"Public and private credit had alike perished amidst the general convulsions. Specie had disappeared from circulation. The assignat had *fallen* to a third of its value—[This is not quite

1. *History of Europe, Vol. 2, p. 219, 7th Edit.*

correct. At this time the assignat had lost one-third of its value, not fallen to one-third of it.]—and occasioned such an amount of ruin to private fortunes, that numbers already wished for a return to the ancient *regime*.

"While the unlimited issues of assignats, at whatever *rate of discount* they might pass, amply provided for all the present and probable wants of the Treasury.

"The vast and increasing expenditure of the Republic could only, amidst the total failure of the taxes, be supplied by the issue of assignats; and this, of course, by rendering paper money redundant, lowered its value in exchange with other commodities, and occasioned a constant and even frightful rise of prices.

"All the persons employed by Government, both in the civil and military departments, were paid in the paper currency at par; but as it rapidly fell, from the enormous quantity in circulation, to a tenth-part, and soon a twentieth of its real value, the pay received was merely nominal, and those in receipt of the largest apparent incomes, were in want of the common necessaries of life. Pichegru, at the head of the army of the North, with a nominal pay of 4,000 francs a month, was in the actual receipt, on the Rhine in 1795, of only two-hundred francs, or £8 sterling of gold and silver.

"The funds on which the enormous paper circulation was based embracing all the confiscated property in the kingdom, or land, houses, and moveables, were estimated at fifteen milliards of francs, above £600,000,000 sterling; but, in the distracted state of the country, few purchasers could be found for such immense national domains; and, therefore, the security for all practical purposes was merely nominal. The consequence was that the assignat fell to one-twelfth of its real value; in other words, an assignat for 24 francs was worth only two francs; that is, a note for a pound was worth only 1s. 8d.

"Foreign commerce having begun to revive with the cessation of the Reign of Terror, sales being no longer forced, the *assignat was brought into comparison with the currency of other countries*, and its enormous inferiority precipitated still further its fall.

"By no possible measure of finance could paper money, worth nothing in foreign states, from a distrust of its security, *and*

redundant at home from excessive issue, be maintained at anything like an equality with gold and silver. The mandates were, in truth, a reduction of assignats to a thirtieth part of their value; but, to be on a par with the precious metals, they should have been issued at one-thousandth part, being the rate of discount to which the original paper had now fallen.

"The excessive fall of the paper at length made all classes perceive that it was in vain to pursue the chimera of upholding its value. On the 16th July, 1796, the measures, amounting to an open confession of a bankruptcy which had long existed, were adopted."

28. We have quoted these passages for the purpose of shewing how completely Sir Archibald Alison, when he is speaking of the paper currency of France, acknowledges the great principle, that the value of the paper currency is only to be estimated at the value it will purchase in specie, that the measure of that difference between the real and the nominal value is its *depreciation*, and that a payment in coin at the current value of the paper currency is a NATIONAL BANKRUPTCY. Yet, such is the amazing inconsistency of this writer, that when he comes to speak of the paper currency of England, which exhibited exactly the same phenomena, only on a smaller scale, he resolutely denies that it was depreciated. When the French assignat had lost one-third of its value compared to specie, in 1791, he acknowledges that it was *depreciated*; when the Bank of England note in 1811 had lost one-fourth of its value compared to specie, it was not the note which had fallen, but gold which had risen!! When assignats were made legal tender in France at their nominal value, specie disappeared from circulation. When Bank of England notes were substantially legal tender in England, and had lost a quarter of their nominal value, specie disappeared from circulation. Sir Archibald Alison estimates the depreciation of the assignat by the difference between the current and the nominal value of the assignat; but when the Bullion Committee estimated the depreciation of the Bank note by the difference between its nominal and its current, or market value, he reads a homily to them upon their ignorance and folly, talks of the "general delusion which so long had prevailed upon the subject, when it is recollected not only that the true principles

of this apparently difficult, but really simple, branch of national economy, which are now generally admitted, were at the time most ably expounded by many men both in and out of Parliament, but that, in the examination of some of the leading merchants of London before the Parliamentary Committee on the subject, the truth was told with a force and precision, which it now appears surprising any one could resist." This truth, which was told with such irresistible force and precision, was, that twenty-seven was equal to twenty-one! He then acknowledges that it was a national bankruptcy of the French Government to pay its notes with a less amount of specie than their nominal value; but nothing can exceed the bitterness of his invective against the Currency Act of 1819, which provided that the Bank of England should pay its notes at their full nominal value in specie. Just as if it was less a *bankruptcy* to pay 15s. in the pound than to pay 1s. in the pound. He sees clearly that in *France* the paper currency is to be estimated by the value of gold; but in *England* he maintains that gold is to be estimated by the value of the paper currency!! Just as if the eternal truths of science are different, on different sides of the Channel; or that they are reversed according to the language they are expressed in!

29. Sir Archibald Alison's doctrines, when he speaks of English and the French inconvertible paper currency, are clearly inconsistent. He fully allows that any difference between the nominal and the current value of the assignat was a *depreciation* of the assignat. He never dreams of saying that the paper assignat was the standard, and that the *coin* had risen in value. But when he discusses the question of—What is a pound? he says, "In truth, a pound is an abstract measure of value just as a foot or a yard of length, and different things have at different periods been taken to denote that measure, according as the conveniency of men suggested. It was originally a pound weight of silver, and that metal was, till the present century, the standard in England, as it still is in most other countries. When gold was made the standard, by the Bank being compelled by the Act of 1819 to pay in that metal, the old word denoting its original signification of the less valuable metal was still retained. During the war, when the metallic currency dis-

appeared, the pound was a Bank of England pound note—the standard was the paper—for gold was worth 28s. the pound, from the demand for it on the Continent." It is scarcely necessary to point out the ridiculous absurdity of this passage. The pound an *abstract* thing indeed! Our ancestors had very few abstract ideas at all, and certainly an *abstract* idea of a pound was not one of them. They meant nothing abstract, but, on the contrary, a very substantial *pound weight of silver bullion*, and nothing else. To say that a paper pound was the standard during the war, is a misconception of the fact. Instead of a "promise to pay" on demand, the Bank note during the war was a "promise to pay specie six months after peace." It is not true that gold during the war was worth 28s. paid in *silver money*, but only in depreciated *bank notes*. But Sir Archibald Alison admits that an excessive issue of paper would have depreciated the bank note, but he, of course, denies that the issues were excessive. Now, as a depreciation from an excessive issue could only be manifested by a continuous rise of gold above 28s. the pound, it would be difficult to understand where the turning point would be at which the depreciation would commence. At what figure should we have to reverse our expression—at what figure are we to say that gold has ceased to rise, and paper begun to fall?

30. Such is a plain statement, founded upon incontrovertible facts, of the results of the greatest experiment the world ever saw of issuing a paper currency secured upon commodities or property—the most complete example of LAWISM. When the issues of assignats were at their height, they were certainly not anything equal to the value of the fee-simple of France expressed in silver money. And, according to the predictions of Law and Mirabeau, it was a matter of impossibility that they should ever become depreciated, and what was the result? Even though the experiment was not carried out to its fullest extent, the value of the paper assignat sank to one 30,000th part of its value in silver! There were 2,400 millions of promises of mandates issued against property valued at 3,785 millions, and yet, in July, 1796, the note for 100 livres was only 5 centimes! Such was the inevitable consequence of basing a paper currency upon property or securities, and such it ever must be, because, if such

issues are once begun, there is no legitimate conclusion whatever, until all the property in the country is coined into notes. Pass the legitimate limits of a circulating medium by one hair's breadth, and there is no logical conclusion but in the French assignats.

31. The next example we shall cite is the Bank of Norway, which was founded on the 14th June, 1816, with its head office at Drontheim, and branches in the provincial towns.[1] Its capital was originally raised by a forced loan or tax upon all landed property, and the landholders became shareholders according to the amounts of their respective payments. This Bank was especially for the purpose of forwarding agricultural improvements, and only discounted mercantile bills and personal securities, as a secondary part of its business. Its principal business consisted in advancing its own notes, upon first securities over land, to any amount not exceeding two-thirds of the value of the property according to a general valuation taken in the year 1812. The borrower paid half-yearly to the Bank the interest of the sum that may be at his debit, at the rate of 4 per cent. per annum, and is bound also to pay off 5 per cent. yearly of the principal, which is thus liquidated in twenty years. Mr. Laing bestows great commendation upon this institution, and describes it as well-imagined and well-managed, and there cannot be a better example to test the truth of Law's principles. We must bear in mind that Law especially declares that on his principle *his paper currency would not fall below the value of silver.* Now, let us mark what took place with regard to the Bank of Norway, which was founded purely on his principle. By the fundamental law of this Bank, it should, after a certain time, have begun to pay its notes in specie, but in 1822 they could only be exchanged at Hamburg for silver at the rate of 187½ dollars in paper for 100 dollars in silver!! That is, in 6 years the notes had fallen to about 45 per cent. discount! Was there ever a more striking or conclusive example of the entire fallacy of Law's predictions than this Bank? In 1822 the Storthing passed a law that the Bank should only be compelled to give 100 silver dollars for every 190 paper dollars, but that the directors might at their own discretion reduce the rate to 175, without a new law. In

[1] *Laing's Norway, p.* 184. *Travellers' Library.*

1824 the value at Hamburg rose to 145; in 1827 it rose to 125; and in 1835, when Mr. Laing wrote, it stood at 112, which could only have been done by a contraction of its issues. Now, it is quite evident that if the Bank had been called upon to pay its notes at par at any moment, it would infallibly have been ruined. This happened in Paris in 1803, when the Land Bank stopped payment, and J. B. Say observes that all Banks founded upon this principle have uniformly failed.

32. The last example we shall cite is the case of America. That country was unhappily deeply bitten with the currency mania of basing issues of paper on "securities." In most of the States the Legislature passed Acts permitting any individual, or any banking associations, to issue notes to any amount, upon depositing with a "public comptroller," securities of equivalent value. These "securities" might be public stock, or mortgages upon improved, productive, and unencumbered lands.[1] Now, as these "securities" remained the property of the vendors, and they might appropriate the revenues from them, as long as payment of the notes was not demanded from the comptroller, people saw that they might derive a profit from the security as well as from the currency which represented its value. There was, accordingly, a prodigious rush to deposit securities—an enormous issue of paper, during the years 1834-5-6. The prices of everything rose immensely. The people of the Western States, with their "pockets full of paper currency, gave very large orders for goods to the merchants of New York, Boston, and Philadelphia, who duly executed them. The bills given for the purchases were payable in these eastern cities; and, when the western debtors went to their own bankers for bills of exchange on these places, in return for their own local currency, the bankers discovered that their home customers had bought more from the eastern cities than they had sold; that they had already drawn on the east for every dollar which the east was indebted to them, and could draw no more. The western merchants then sent their own currency notes to the eastern cities in payment but, unfortunately for them, the merchants there had already paid all they owed to the west, and nobody in New York or

[1] A very graphic account of the currency vagaries of the United States is given in two Articles of the "*Scotsman*," Nov. 21 and 24, 1855. See also "*The Progress of America*, by John Macgregor, Esq., M.P., vol. 2, p. 1768.

Philadelphia wanted western notes for any purpose of use, and nobody was disposed to travel 600 or 700 miles to request the cashiers of the Western States to pay their notes, or in those States in which security had been given to require the comptroller to sell the pledged securities and pay them the money produce. Moreover, every one knew that it was physically impossible in either case to obtain the amount in money, for there was no currency in which the pledged property when sold could have been paid, except *Bank* notes resting on securities, or on the mere promise of the banker." In the meantime, the usual effects followed, specie disappeared from circulation. The extended paper issues led the Americans to order immense quantities of goods from Europe, and, prices being very high from the bloated paper currency, they could send no goods in return to pay for them. For some time they sent over great quantities of their stock, but this became superabundant, and at last no one in Europe would buy it. It became necessary then for them to pay their debts in specie; but specie there was none. In 1837 all the Banks in America, without exception, stopped payment. The general suspension began at New York on the 11th May, and spread in every direction. In May, 1838, the New York banks resumed specie payments; which were followed by all the New England banks in August, 1838. This was followed by the banks in Philadelphia, and on the 1st January, 1839, the banks throughout the Union professed to do so. No sooner, however, were they set up again than they resumed the same wild operations on credit, and on 9th October, 1839, out of 850 banks in the Union, 343 suspended payment entirely, and 62 partially. On this occasion the New England banks were honourably distinguished; they had gathered wisdom; and out of 198 banks in New York, only four stopped; whereas, in the Southern and Western States, about two out of three stopped. The United States Bank, with a paid up capital of £7,000,000, was found to be utterly insolvent; its shares, which were at 123 dollars on the 14th August, 1838, were at 3 dollars in January, 1842. This was the fifth grand experiment of Lawism, pure and unadulterated, on the most magnificent scale, and such was the result!

33. All ideas, therefore, of basing a paper currency upon property, or commodities, are essentially erroneous, and can have no

other possible termination, if only carried out to their legitimate consequences, that what happened in France in 1796, and America in 1837-9. There is one species of property, however, which, from its being more nearly confounded with money in the public ideas than any other, is supposed by many persons, who would repudiate any imputation of being disciples of Law, to be a sound basis for a paper currency. This property is public stock. A very prevalent idea is, that all banks of issue should give security by purchasing the public funds, and then deposit the stock with a Government officer. But what is this but the wildest, rankest, and most odious LAWISM? The rule that is good for one is good for all. If the public funds are a proper basis for £1,000 of paper currency, they must of necessity be a good basis to their whole extent. If one bank or banker is allowed to issue paper on the security of stock, every other one must be permitted to do the same, until the whole funded debt of Great Britain is coined into paper notes. If £100 of public debt is coined into £100 of notes, we must, by an irresistible conclusion, have £800,000,000 of public debt coined into an equal quantity of notes. The principles of basing a paper currency upon land, and upon the public funds, are absolutely identical, and equally vicious. To permit a man to *spend* his money in buying part of the public debt, and to *have* it as well, in the form of notes, is as rank an absurdity as to permit him to spend it in land, and also have it as notes. The only advantage one has over the other is, that the funds are more easily convertible into money than land is. The same is true of a nation as an individual—that a nation can *spend* its money in destroying its enemies and *have* it too as bank notes, or "currency," is a wild and mischievous delusion.

34. The drift of these remarks is evident. The whole constitution of the Bank of England is fundamentally vicious. It is as complete an example of pure Lawism as the French assignats, or the American banks. It gave its original capital to Government, and then was allowed to have it in the form of notes. The first public debt was Bank of England stock, and for several of the early additions to its capital, *i. e.*, the public debt, it was allowed to issue notes to the exact amount of its capital, and this permission still continues. Now, if this system had been

carried out to its legitimate conclusion, the National Debt and the capital of the Bank of England would have been the same thing, and the paper notes of the Bank would have been nearly £800,000,000. When it was founded the nation thought they might spend £1,200,000 in destroying the French, and have them too as Bank notes. But, if this principle had been carried out much further, it would have ended in fatal and universal ruin.

35. The fundamental principle of the Bank of England was, therefore, as erroneous as that of the Mississippi scheme, the Ayr Bank, the French assignats, or American banking; but as, in all these cases, the mischief is not developed until the issues exceed a certain limit, the radical vice of the Bank of England has been prevented from producing its inevitable consequences by rigidly restraining it to that single instance. But, then, this vice was kept down by a most unjustifiable monopoly, which was the chief cause of those tremendous banking catastrophes which have desolated England, and which has, until of late years, prevented a sound banking system being founded.

On the Theory of basing a Paper Currency on the Discount of Commercial Bills.

36. We trust that the preceding remarks are absolutely conclusive as to the fundamental fallacy of Lawism of all forms and descriptions, by which we mean, the theory of basing issues of paper on property, or commodities, whether the public funds, or land, or any moveable goods. We must now examine a much more subtle and plausible theory, which was the guiding principle of the Bank of Ireland and the Bank of England during the restriction, and which was adhered to by a large majority of the commercial world; nor are we aware of any refutation of it on philosophical grounds, except the one in the Bullion Report, which we shall quote and comment upon. This theory was first prominently brought forward before the Committee on the Irish Currency in 1804, and we have quoted it elsewhere. The Bullion Committee express it in the following words:—

"The Bank directors, as well as some of the merchants who have been examined, shewed a great anxiety to state to your

Committee a doctrine, of the truth of which they professed themselves to be most thoroughly convinced—that there can be no possible excess in the issue of Bank of England paper, so long as the advances in which it is issued are made upon the principles which at present guide the conduct of the directors; that is, so long as the discounts of mercantile bills are confined to paper of undoubted solidity, arising out of real commercial transactions, and payable at short and fixed periods."

37. The germ of this doctrine is to be found in Adam Smith; who says—"When a bank discounts to a merchant a real bill of exchange, drawn by a real creditor upon a real debtor, and which, as soon as it becomes due, is really paid by that debtor, it only advances to him a part of the value, which he would otherwise be obliged to keep by him unemployed, and in ready money for answering occasional demands." It was first prominently brought forward as a practical rule by the Irish Bank directors, in 1804. The Committee of that year did not attempt to deal with this theory; but the witnesses examined before the Bullion Committee re-produced it, and alleged that it was the principle by which the Bank of England regulated its issues during the restriction. The directors of the Bank allowed that, before the restriction, they were compelled to regulate their issues by a drain of gold on them for exportation; when that check was removed, the controlling power was lost; and, indeed, one of the directors stated that, in his opinion, that was one great merit of the restriction; that they were no longer obliged to adhere to their former rules. The Bullion Committee, however, decidedly condemned these opinions. They say, speaking of the consequences of the Restriction Act:—

"By far the most important of these consequences is, that while the convertibility into specie no longer exists, as a check to an over-issue of paper, the Bank directors have not perceived that the removal of that check rendered it impossible that such an excess might be issued by the discount of *perfectly good bills*. So far from perceiving this, your Committee have shewn that they maintain the contrary doctrine with the utmost confidence; however, it may be qualified occasionally by some of their expressions. That this doctrine is a very fallacious one, your Committee cannot entertain a doubt. The fallacy upon which it

is founded, lies in not distinguishing between an advance of capital to merchants and an additional supply of currency to the general mass of circulating medium. If the advance of capital only is considered as made to those who are ready to employ it in judicious and productive undertakings, it is evident that there need be no other limit to the total amount of advances than what the means of the lender and his prudence in the selection of borrowers may impose. But, in the present situation of the Bank, entrusted, as it is, with the function of supplying the public with that paper currency which forms the basis of our circulation, and, at the same time, not subjected to the liability of converting the paper into specie, every advance which it makes of capital to the merchant in the shape of discount, becomes an addition also to the mass of circulating medium. In the first instance, when the advance is made by notes paid in discount of a bill, it is undoubtedly so much capital, so much power of making purchases, placed in the hands of a merchant who receives the notes; and, if these hands are safe, the operation is so far, and in this, its first step, useful and productive to the public. But as soon as the portion of circulating medium in which the advance was thus made, performs in the hands of him to whom it was advanced, this, its first operation as capital—as soon as the notes are exchanged by him for some other article which is capital, they fall into the channel of circulation, as so much circulating medium, and form an addition to the mass of currency. The necessary effect of every such addition to the mass is to diminish the relative value of any given portion of that mass in exchange for commodities. If the addition were made by notes convertible into specie, this diminution of the relative value of any given portion of the whole mass would speedily bring back upon the bank which issued the note as much as was excessive. But if by law they are not so convertible, of course, this excess will not be brought back, but will remain in the channel of circulation, until paid in again to the bank itself, in discharge of the bills which were originally discounted. During the whole time they remain out, they perform all the functions of circulating medium, and before they come to be paid in discharge of those bills, they have already been followed by a new issue of notes, in a similar operation of discounting. Each successive advance repeats the same process. If the whole sum of discounts con-

tinues outstanding at a given amount, there will remain permanently out in circulation a corresponding amount of paper; and if the amount of discounts is progressively increasing, the amount of paper which remains out in circulation over and above what is wanted for the occasions of the public, will progressively increase also; and the money prices of commodities will progressively rise. This progress may be as indefinite as the range of speculation and adventure in a great commercial country."

38. Such is the reasoning of the Bullion Report, to shew the fallacy of the rule of the directors. We are not aware of any other attempt to refute it, so elaborate as the one given. The conclusions are perfectly just, but the expressions are in some respects ambiguous, in some, inaccurate; and, altogether, the reasoning is inadequate to effect its purpose of demonstrating the fallacy of the doctrine. In the first place, the expression "good bills" is one which we shall shew is full of fallacy. The Report has further been clouded by the false distinction between "capital" and "circulating medium." Again, it says the necessary effect of every addition to the mass of the currency, is to diminish the value of the whole, which assertion is entirely erroneous, because the value ef the currency is always proportionate to the work which it has to do; and it is only a change in the proportion between the currency and the work that it has to do, that causes a change in its value. The Committee were further in great error in supposing that so small an amount as could be added to the circulating medium in so short a time as during the currency of the bills that were discounted, could have any general effect on prices.

39. We shall find that, by starting from our fundamental definition of currency, as transferable debt, and that the value of the currency depends upon the quantity of transferable debt which it represents, the fallacy of this theory can be demonstrated with great ease and simplicity, and the mischievous consequences which followed from it explained. When the merchant A comes to the Bank to *discount* the acceptance of B, it is a sale of the debt to the bank. The bank buys a debt payable at a fixed time after date, with its notes, which are so

many small debts payable to bearer on demand, while the notes are convertible. The transaction is simply an exchange of debts. At the appointed time it is B's duty to take a quantity of currency to the bank, and discharge his debt. He does this, either in coin, or in the bank's own notes. If he pays his own debt by the bank's notes, it is simply a re-exchange of debts between him and the bank; he extinguishes his own debt to the bank at the same time an equal quantity of the bank's debt is taken out of circulation and extinguished; consequently, the proportion existing previously between the currency and the quantity of debt it represents, remains unaltered. If the merchant discharges his debt partly in coin and partly in bank notes, or wholly in coin, the same result follows; the notes which remain out in circulation still represent the same amount of capital. But let us suppose that the acceptor *fails* to meet his engagement, and cannot pay his debt. Then the debt due *to* the bank is lost and extinguished; but the debt *against* the bank remains; and the bank, whilst the notes are payable to bearer on demand, must pay this debt out of its remaining capital. Still, however, though this is loss of capital to the bank, as the notes are taken out of circulation, the value of the notes remaining in circulation will not be affected. But now let us suppose the notes to be *inconvertible*, then, as before, if the acceptor pays the debt, the notes will be taken out of circulation, and extinguished simultaneously with the debt which they purchased, and the value of those remaining in circulation will not be altered. But suppose that the acceptor fails, and cannot pay his debt, then that debt is extinguished, but the notes which purchased it remain in circulation, and are a mere addition to the circulating medium already existing, without any corresponding addition to the debt or capital which it represents. It would have exactly the same practical effects as if for every good bill of £1,000 the bank were to issue an excess of currency, say £1,500, for example, and when the bill was paid only £1,000 would be taken out of circulation, and the remainder, £500, would remain in circulation. This residuum, as we may call it, would go in diminution of the value of the remainder, exactly in the same way as a constant increase to the gold currency would gradually cause a diminution in its value. Every such operation, therefore, alters the proportion between the currency and the

capital, or the debt it represents; and though, no doubt, a few unsuccessful operations of this sort would not have any sensible effect in changing its value, yet a repeated succession of them must necessarily do so ultimately, just as adding a drop to water in a bucket may not perceptibly increase the height of the water, yet a continued series of drops will at length cause the water to overflow the bucket; so a continued series of such operations under an inconvertible paper currency must necessarily result in a serious diminution in the value of the whole.

40. But it may happen, that even though the merchant pays his debt, and no loss of capital ensues to the bank, yet it may be a loss of capital to him. Thus, when he bought the goods on credit, and gave his acceptance for them, which was purchased by the bank, he meant to employ those goods as *capital*, that is, he bought them merely for the purpose of selling them again, with a profit. If he succeeds in this object, and sells them to advantage, he pays his acceptance out of the proceeds realised by the goods, and his capital is increased more or less, according to the greater or less advantage he sells them at. But if he has made a miscalculation, and sells the goods at a loss, he must still make good his debt to the bank, out of his remaining capital: and such a transaction is a loss of capital to him. But every loss of capital to an individual is a loss of capital to the whole community.[1] And the great general result to the community is absolutely the same, whether the loss of capital falls upon the individual or upon the bank. The capital of the nation is diminished, but the currency remains the same. Consequently, every unsuccessful operation in trade alters the proportion between the quantity of the currency and the quantity of the debt, or the capital it represents; and, therefore, every unsuccessful operation necessarily tends to diminish the value of the whole currency, unless some means can be devised by which a quantity of currency can be removed from circulation corresponding to the loss of capital. Now, the diminution in the value of the currency inevitably shews

[1] J. B. Say has also remarked this:—"Un mauvais speculateur est aussi fatal à la prosperité général qu'un dissipateur."—*Traité d'Economie Politique*, *p.* 445. *Edit. Guillaumin.*

itself in process of time, by a general rise in prices. It may do so gradually and imperceptibly at first—in the hourly variations of prices, it may not, perhaps, be perceived at first; just as when the waves are breaking upon the shore, it is impossible to tell whether the great tide is advancing or receding; but if it continues for any length of time, all traders begin to feel it instinctively. It is impossible, perhaps, to point out the precise influence in any particular transaction; but yet it makes itself felt in commercial operations by a general rise in prices. The fact is, that when the operation was done, and the production exposed for sale, it was expected and calculated that a certain portion of currency would be appropriated to its purchase. But, if people do not want the article, they will not appropriate that portion of currency to its purchase; the producer loses his capital, and the currency remains in circulation. And the increased quantity of it gradually enters into the prices of other commodities, aggravating them, and swelling them up. Now, when this is the case, when the currency is made of a material which has a universally acknowledged value, nature herself provides the remedy. When commodities rise in price in this country beyond their prices in foreign countries, besides the cost of transporting them here, they will be imported and the extra quantity thrown upon the market diminishes their price, both by altering the ratio of supply and demand, as well as by removing the quantity of currency necessary to pay for them from circulation, until the general equilibrium is again restored between prices, currency, and capital. But, if the currency be made of a material which has no value whatever, like paper, this great restoring process of nature cannot take place. The quantity of currency remains the same, while the debt it represents is diminished. The consequence is, a general diminution in value of the whole currency—all the portion of the currency which has no value as a material is driven out of circulation; then follows a great rise in the market price of bullion, and, a necessary consequence, a fall in the foreign exchanges.

41. The foregoing considerations enable us to affix a definite and specific meaning to a phrase which is now in constant use, but which we have never yet seen any attempt to explain. All discussions upon currency are full of misty and vague expressions

about "excessive issues," "over-issues," but we have never seen any attempt to define what an "over-issue" is. Now, "over-issues" in general, must consist of specific instances of "over-issue" in particular cases. Where is the use or the sense of casting vague and indefinite accusations against the Bank of making "excessive issues," unless the person who makes the charge is prepared to point out specifically which issues are excessive, and which are not? Now, the meaning which we affix to an "excessive issue," or an "over-issue," is an advance upon an unsuccessful operation, or the "purchase of a bad debt." Every quantity of currency advanced to promote an unsuccessful operation, or which purchases a bad debt, alters the proportion between the currency and the debt, or the capital it represents. Each specific instance, then, of such an operation, is an "over-issue," and the expression "over-issue," or "excessive issue," has no other meaning.

42. The foregoing considerations also shew the complete fallacy of the theory we have been discussing, of issuing notes upon "good bills." In a banker's sense, a "good bill" means simply a bill which is duly paid by the proper party at maturity. It is not the smallest consequence to him, whether the transaction out of which the bill originated is a profit or a loss to the person who incurred the obligation, as long as he is paid. But if the expression "good bill" be taken in a more extended and philosophical sense, to denote a bill upon which it is safe to issue currency, it is a very different matter indeed, for then a "good bill" can only mean one generated by a successful operation.

43. It is not a little remarkable that Adam Smith adopts both the theories of paper currency, which have imposed so extensively on the banking and mercantile world, and that within a very few pages of each other. The one theory, that which the Bank Directors and merchants adopted in 1810; the other, which is the great currency fallacy of the present day. The two theories are utterly irreconcilable and inconsistent with each other; the one necessarily leads to the most excessive over-issues and depreciation of the paper currency; the other, if carried out

in all its integrity, would be utterly destructive of the business of banking.

44. What then is the only true foundation of a paper currency? Every consideration of sound reasoning and science, proves that the only true foundation of a paper currency is that substance which is the legal or the universally accepted representative of DEBT, *i. e.*, of services due, whatever that substance be. Now, among all civilized nations, gold or silver bullion is the acknowledged representative of debt. Consequently, gold or silver bullion is the only true basis of a paper currency. Among all civilised nations the *weight of bullion is the acknowledged measure of value,* and, consequently, bullion is the only true basis of the "promises to pay." Many unthinking persons declaim against the absurdity of founding a paper currency upon the *commodity* of gold bullion rather than any other commodity, such as wheat, or silk, or sugar. But it is not as a *commodity* that bullion is the basis of a paper currency, but as the substance which is the accepted representative of *debt.* It would be perfectly possible to make a yard of broadcloth, or a Dutch cheese, the symbol of debt, and the measure of value; then broadcloth or Dutch cheeses would be the only true basis of a paper currency; and to issue paper upon the basis of bullion would, in such a case, be as improper as to issue paper on the basis of broadcloth, or Dutch cheeses, under existing circumstances. But all nations are agreed that bullion is better fitted by nature for such a purpose than broadcloth, or Dutch cheeses; and, consequently, as it seems to be the substance pointed out by nature herself for representing debt, it is the substance which forms the only true basis of a paper currency.

45. Bullion, then, as the symbol of debt, is not only the sole proper basis of a paper currency, but is the only true regulator of its amount. As all paper currency is a "promise to pay" gold or silver bullion at some definite time, it is quite evident that the "promises to pay" floating in a nation must bear some proportion in quantity to the actual quantity of the bullion. It is quite impossible to fix any definite proportion, because that depends upon a multitude of peculiar circumstances. Experience is the only guide on the subject.

46. Specie and credit, or money and promises to pay money, then, form the only true circulating medium or currency, and they are its limits. If the limits of specie and credit are once transgressed, we plunge at once into the dread abyss of Lawism, and there is no logical goal till we arrive at the assignats of 1796, or the issues in America in 1837; and even these did not reach the full limits allowed by the theory. It is impossible to exceed the boundaries of money and credit by a single iota, without involving this absurdity—*that we can buy a thing and keep the price of it as well.*

47. Money and credit, then, must always increase and decrease together. If a man's real capital is reduced from £1,000 to £100, it is quite clear that he cannot safely keep in circulation as many "promises to pay" as when he had £1,000, and if his real capital is leaving him, he must reduce his liabilities in a similar proportion. If he chooses to spend £500 in buying commodities, such as corn, it is quite clear he cannot spend the money, buy the commodity, and have the price as well. Now, what is true of a single individual is equally true of a bank, or of a nation. When an ordinary bank feels a drain upon its bullion, it must reduce its liabilities, its "promises to pay," or else the ruin of that bank is certain. Now, some people think, that though this must be true of private banks, yet it is the reverse of true applied to the Bank of England, and that, as its bullion *decreases* it ought to *increase* its issues. Sir Archibald Alison frequently reminds us of the truism that the same great law regulates the fall of a pebble and the motion of the planets. So we may say that the same great law regulates the relations between the credit and the capital of the humblest individual, the smallest bank, the Bank of England, and the British nation. Some people think that as capital decreases credit should increase. What makes the credit of Great Britain so great? Because her capital is so great. Why is the credit of Russia so low? Because her capital is so small.

48. The operation of reducing "issues" or "advances," is always one which will excite much complaint, and requires to be done with much delicacy; and, indeed, the great problem in regulating the paper currency, is to discover the true mode of

acting upon it, so as on the one hand to maintain always its uniformity in value with the coin it represents, and on the other not to contract it too suddenly and violently, and without giving the public sufficient warning to enable them to reduce their liabilities in proportion.

49. From the amazing confusion of language and thought which pervades almost all treatises on monetary science, the plain and obvious method of controlling the paper currency has almost entirely eluded observation. No person who apprehended the true nature of banking, and expressed it in simple language, could fail to see the natural controller. The main business of commercial banking is discounting mercantile bills—that is, buying debts. Discounting a bill for a merchant is not *lending* him money but *buying* a debt due to him; and the price of such debt must follow exactly the same laws as the price of corn, or any other article. If money is very scarce, and wheat very abundant, the price of wheat must fall; if money is very abundant, the price of wheat will rise. The price of debts obeys the same rules. If money becomes very scarce, the price of debts must fall, *i. e.*, the discount must rise. If specie becomes abundant the price of debts will rise, *i. e.*, the discount will fall. The price of debts, then, must follow the same great laws of nature that the price of wheat does. Now, does not every man of common sense know that it is the most foolish and insane thing to try to control the price of wheat? As we have shewn in another place, it is not the fluctuation of the price of wheat that is the evil, but it is only the *sign* of evil. The real evil is the change in the proportion of the demand and supply, and the fluctuation of the price is the grand natural corrector of the evil. Does not every one know that a high price of corn is the way to *attract* corn where it is deficient, and a low price the way to *repel* it from where it is already too abundant? Does not every one with common sense know that it is the most fatal folly to force down the price of wheat when there is a real scarcity, and to sell it below the price it would naturally attain? Can any course be more suicidal?

50. Now, apply all the arguments which suggest themselves so irresistibly in the case of wheat to the case of credit, or the

purchase of debts, and the same results follow. The same great law of nature operates to preserve the due proportion between specie and credit, and any interference with this great law must necessarily be attended with the same evil consequences as an interference with the natural price of wheat. And yet almost all legislation up to a very recent period, and almost all writers on political economy, and too many of the commercial world, were in a perverse combination to thwart this great law of nature, and attempt to keep the rate of discount, or the price of debts, fixed at a uniform scale!

51. While, therefore, the greater part of commercial complaints are levelled against variations in the rate of discount as the great evil, the truth is, it is only the *sign* of the evil. The real evil is the altered proportion between specie and credit, and a variation in the rate of discount is the grand natural corrector of the evil. To attempt to keep the rate of discount uniform, is to thwart and contravene the laws of nature just the same as an attempt to fix the price of wheat. Like all true laws of nature, the simplicity, beauty, and perfection of its action is marvellous, and it produces a multitude of results which are not perhaps very obvious at first. If specie is leaving the country and becoming scarce compared to credit, every principle of nature shews that the value of money must rise, *i. e.*, the rate of discount must rise; and this has a tendency to prevent the outflow of bullion, and to attract it from abroad; on the other hand, if specie be flowing into the country and likely to become too abundant compared to credit, a fall in its value, or a fall in the rate of discount *repels* it from the country. If a nation be visited with a great failure of the crops it can only buy such food from foreign countries with its commodities or its money; it cannot send its credit in payment abroad. Now, if commodities are too dear, it must pay with money, and credit in this country is the great producing power, and credit *for a time* is a great sustainer of prices by enabling people to withhold their commodities from the market. Now, raising the rate of discount curtails credit, forces sales, and thereby lowers the prices of commodities, and makes it less profitable to export specie, and more profitable to export goods. Moreover, this rise in the value of money here, *i. e.*, the low price of debts and commodities,

tempts buyers from neighbouring countries to bring their money here. It thus causes an inflow of bullion, and restores our currency to a uniformity of value, with that of neighbouring countries. Again, if this nation has to spend a great part of its money in buying foreign corn, it is quite clear that it has not got so much to spend in purchasing goods; an over-production of goods, therefore, can only end in a disastrous fall in prices. And here, too, the beautiful action of this great law of nature is manifest. So enormous a proportion of the commodities of this country are produced by the credit system, that a rise in the rate of discount just hits profits between wind and water, as we may say. Consequently, a rise in the rate of discount retards and curtails production in proportion to the diminished consuming powers of the nation, and so prevents such a ruinous fall in prices as would necessarily follow an undiminished production, accompanied by a diminished power of consumption.

52. In fact, when a commercial crisis occurs in a country, it invariably means that more persons are wishing to sell than there are persons to buy, or, at least, at remunerative prices. A commercial crisis invariably arises from a lack of purchasers, which is, in fact, over-production. True prudence, therefore, shews that in all commercial crises, *production should be curbed.* It is much better not to produce at all, than to produce and be obliged to sell at a loss. To produce, and be obliged to sell below the cost of production, is loss of capital. It is better, therefore, not to employ the capital at all than to lose it. Raising the rate of discount, therefore, acts as a timely warning to producers to hold hard. It is necessary to dispose of the stock already produced, before producing more, and if the stream of sale is stopped while production continues, it can only end in a more aggravated fall at last.

53. Now, what is the necessary consequence of an attempt to thwart this great law of nature? In time of scarcity of food, and a necessary export of money to buy it, if the rate of discount be kept unnaturally low, nothing but money will go; commodities are too dear, they will not go. Again, money being kept at an unnaturally low rate here, no one will bring it here from neighbouring countries; consequently, great quantities of

money will go out and none will come in, till at last the circulating medium will be nothing but "promises to pay," and no money to pay them with. Then, at last, violent convulsions, total destruction of credit, every one wishing to sell, and no one wishing or able to buy.

54. On the other hand, if, when specie is flowing in with too great abundance, it be not repelled by a due diminution in the value of money, *i. e.*, a fall in the rate of discount, it will continue to do so until it is so superabundant that a violent fall takes place. Persons who are accustomed to depend on the incomes they derive from the interest of money, suddenly find that their means are seriously diminished. In the year 1824 there was such a plethora of capital in the country that the Scotch banks gave no interest on deposits; after 1824 came 1825. Then wild speculations find favour in the public mind, promising higher profits; and then the community goes through the cycle of bubble speculations, extravagant credit, ending in a commercial catastrophe. We may feel quite certain that if during the various crises this country has passed through, there had been more attention paid to observe the natural rate of discount, instead of thwarting the course of nature, though the variations would have been more frequent, they would have been less violent and extreme. If specie is coming in with too great speed, it is good to lower the rate of discount quickly to prevent it getting lower; if specie is going out too rapidly it is good to raise the rate quickly to prevent its being higher.

55. Such, however, is the perversity of men, that many think that a uniform and invariable rate of discount is the great thing to be preserved, no matter what nature may say to the contrary, and their ingenuity is racked to devise a plan for always keeping it so, just as if the governor of the steam engine ought always to revolve with uniform velocity. Now, the inevitable consequence of taking these means to thwart nature will be, that when specie is scarce, it will be repelled by a lower rate than the natural one; when it is already too abundant, it will be still further attracted by a rate higher than the natural one.

56. The extreme anxiety of persons to attain an impossible object, always to have the power of selling debts due to them at

a uniform rate, has led to a very prevalent theory, which seems very innocent and simple. It being desirable always to maintain the currency at a uniform amount, they propose that, as gold goes out, paper should be issued to supply its place. This theory is adopted by Sir Archibald Alison, who says, after condemning the theory that gold and paper must vary together:—

"The true system would be just the reverse. Proceeding on the principle that the great object is to equalise the currency, and with it prices and speculations, it would *enlarge* the paper currency when the precious metals are withdrawn, and credit is threatened with a stoppage, and proportionally contract it when the precious metals return, and the currency is becoming adequate without any considerable addition to the paper."

57. There would be certainly something specious in the idea of issuing bank notes to supply the place of the gold that went out, if, unfortunately, it had not been tried over and over again, and been attended uniformly with a catastrophe. When gold was leaving the country in vast quantities in 1796, the Bank of England still maintained its issues, against its own will, it is true, but yet the *fact* illustrates the *principle*, and the consequence was the suspension of cash payments in 1797. When the Bank had got right again in 1817, a drain for foreign loans began, and the Bank extended its issues in 1818, and the consequence was the second suspension of cash payments in 1819. In 1824, when bullion was departing from the country like a flood, the Bank extended its issues; then, when it saw itself right in the vortex of bankruptcy, it suddenly altered its policy, and the result of all this was the catastrophe of 1825. In 1838-9, a similar drain occurred, the Bank, with marvellous perversity, maintained its rate of discount considerably below the market rate, and the result was the monetary crisis of 1839. In 1847, there was the same error and the same result. Surely these instances are enough to destroy this fatal delusion.

58. In fact, Sir Archibald and the great body of public writers who share these sentiments, wholly mistake the object to be sought for in so delicate and artificial machine as a paper currency. The object to be aimed at is not to preserve a uniform rate of discount in this country, but to maintain a uniformity in

the value of the British currency with that of other countries. If money is made artificially cheap in this country, that is, cheaper than it is in neighbouring countries, persons in this country will *export* it to where it is of greater value; they will buy foreign securities, they will import foreign commodities. On the other hand, foreign nations will flood this country with their securities —just as the Americans did in 1839, when the Bank kept down the rate of discount below its proper level—because they can sell them at a better price here than in their own country. If a man wishes to sell a horse, and my neighbour will only give £90 for it, and I will give £96, he, of course, will sell the horse to me, and take away my cash. So, when the Americans wished to sell their debts, and found that in their own country they could only get £90 per cent. for them, whereas they could get £97 per cent. for them in England, as a natural consequence, they sent them to England for sale, and took away the cash. The only way for England to have stopped this would have been to give no more for these securities than the Americans would themselves; in other words, to maintain a uniformity in value between the currencies of the two countries.

59. When the foreign exchanges are unfavourable to this country, the simple meaning of that is, that it is profitable to export gold. Now, where is the gold got from for exportation? From the Bank of England. And how is it got from there? By getting hold of the Bank's "promises to pay" gold on demand. Now, when the Bank of England knows that a multitude of persons are trying to get hold of its "promises to pay," for the purpose of demanding gold for them, to carry out of the country, would it not be the height of folly in the Bank to be multiplying its "promises to pay" in all directions, and selling them cheap? This would be exactly as wise as if the captain of a ship, directly he saw a storm coming on, were to set all his studding-sails and royals. When the captain sees the tempest approaching, he must get down his top-gallant masts and reef his topsails; so, when a commercial tempest is threatened it behoves those who pilot the vessels of credit to *contract* their "promises to pay."

60. The plan proposed by Sir Archibald, and a multitude of unthinking writers, is, that when gold is leaving the country,

commissioners should be appointed to issue an equal amount of inconvertible paper, which is to be withdrawn when gold comes back again. But what is to be done with the convertible paper already in existence? Is it to be declared inconvertible? For, as long as the rate of discount is depressed, there will be a constant demand for gold in exchange for notes, and a corresponding amount of *inconvertible* paper must be issued. Let this wonderful theory be put in practice, and the drain will not cease until every sovereign has left the country; and, moreover, they never will come back again. For, as the avowed intention is to keep down the rate of discount, and to keep up prices, there is nothing to bring the bullion back again. Nothing can bring it back again here, except we can sell our commodities or debts cheaper than other nations. But it is the avowed intention of these issues to prevent that; consequently no bullion ever will come back.

61. But, moreover, this wonderful panacea of all monetary ills—issuing an inconvertible paper currency, to supply the place of the gold that goes out—is just our old friend John Law's scheme over again, of issuing paper currency based upon commodities. Those who advocate this think that the nation can send its money abroad to buy food, and have it as well in the form of paper money. Just as if a man might go into a shop, spend his money there in buying goods, and then have it again in the form of a "promise to pay." When will this stupendous delusion be eradicated from the public mind? If I have a certain quantity of money in my till, I may safely give a "promise to pay;" or, if I know for certain that money is coming in to me on a certain day, I may give my "promise to pay" at a certain date; but when I have actually spent my money, and it is gone away from me for ever, to think that I could then grant a "promise to pay" worth anything, is an idea which savours little of sanity. In 1696-7, during the re-coinage of the silver, the Bank of England might have issued £1 notes with the greatest advantage and propriety for a temporary purpose, because it knew that it would shortly have the money to pay them with; but when the money is gone from the Bank to buy corn abroad, it would be the most dangerous folly possible to issue notes to supply the place of gold.

62. But there are several other considerations which point out that the rate of discount is the true method of acting upon the paper currency. As soon as the exchange becomes so unfavourable as to make it profitable to export gold, an immense number of bills are fabricated for the purpose of being sold for the sake of the premium; and these will continue to be fabricated as long as the rate of discount is kept below that of neighbouring countries; now, raising the rate of discount strangles all such operations in the birth. If only the *numerical* amount of notes be looked to, and the rate of discount be kept down, these speculators may get their bills passed, while legitimate trade bills may be refused. A moderate rise in the rate of discount will never inflict any real injury on trade at all equal to the refusal to discount trade bills altogether; and that is the result which has always ensued from a perseverance in keeping down the value of money below its natural level.

63. Moreover, when the nation is actually obliged to spend its money in buying foreign corn, or on any other object, such as war, it is quite impossible that it can have so much money to spend upon other things; its consuming powers, therefore, are diminished; it must economise in other things. Now, if the rate of discount is kept below its natural level, it stimulates and encourages production so much beyond the powers of consumption, that it must necessarily terminate in an aggravated fall in prices. A timely raising of the rate of discount is, therefore, a warning to producers to contract their operations gradually. But keeping it unnaturally low lulls them into false security; they maintain their engagements on credit on an undiminished scale, till at last the Bank, for its own safety, is obliged to pull up on a sudden—to bring up all standing. Then follows a total refusal to discount, commercial panic, and ruin.

64. It is, then, an incontrovertible fundamental truth in monetary science, that specie and credit form the circulating medium, and that they must increase and decrease together. An increase of currency, without an increase of debt, has no effect but to diminish the value of the currency. The same thing happens, if, when debt is destroyed, currency is not destroyed with it. If a metallic currency increases faster than debt, nature

provides a remedy—it is immediately exported. But, with an inconvertible paper currency, this cannot happen, and when debt is destroyed, currency remains in circulation; when this goes on for any length of time, or to any extent, the inevitable result is a depreciation of the paper currency, which is shewn by the rise of the market above the Mint price of gold. This was eminently exemplified in England in the years subsequent to 1810. The extravagant speculations were followed by an enormous destruction of capital; but the currency which was issued to represent it remained in circulation, and soon manifested itself in a rapid fall of the value of paper. It was impossible that paper ever should right itself, unless this superfluous currency was destroyed. It is recorded that an Irishman once having taken a dislike to a banker, in order to spite him, collected a number of his notes and burned them. It would have been an excellent thing for the country bankers of England in 1814-15, if some one had done the same kind office for them. The quantity of paper currency was so excessive, compared to what it represented, that nothing could restore it to its par value but the destruction of a large portion of it; and this was brought about by the destruction of the issuers of it; and, when this was done, the value of the remainder rose to par.

65. We have gone over most of the theories of currency which have attained the greatest practical importance. That there are others, is true; but they have generally been confined to a small knot of fanatics. But, as they seem, at last, to have died out, we need not weary our readers' patience by disturbing their peaceful oblivion.

CHAPTER XVII.

ON THE DEFINITION OF CURRENCY.

1. Having in the preceding chapters completed a general survey of the mechanism of Exchanges, inland and foreign, we are now compelled to examine the peculiar system of Banking which is at present established in this country; but, before we do so, we must give a little time to settle the meaning of the word CURRENCY. Most persons engaged in practical business are morbidly averse to discussions on the meaning of words, thinking them to be pure waste of time. But no science was ever yet founded without such controversies, and it is precisely because writers on Economics have systematically despised and neglected the only means by which a science can be founded, and by which every other great science has been created and established, that Economics is at the present moment in such a discreditable state. In the present case this investigation is absolutely indispensable, because the Bank Charter Act of 1844, which now governs the whole monetary system of the country, is expressly founded upon a peculiar *definition* of the word CURRENCY, and is expressly devised to carry out a peculiar Theory of Currency. In this chapter we must therefore investigate and settle the meaning of the word CURRENCY.

A very distinguished statesman has said that the word CURRENCY has driven more people mad than anything except love. Nor, to say the truth, is this very surprising. If we were to assemble a company of purely literary men, and request them to "Differentiate the Equation to a Curve," we have not the smallest doubt but that such a mysterious expression might drive them to despair, whereas any moderately educated school-boy could do it at a glance. It is precisely the same with the word CURRENCY. It is a term of pure Commercial Law. Any commercial lawyer can tell in an instant what the word CURRENCY means, and what it includes; whereas, those who have occupied themselves with discussions on it, know absolutely nothing of Commercial Law, and have exactly as much chance of settling the meaning of

CURRENCY, as they have of Differentiating an Equation. We have already given a short account of its true meaning,[1] but we must now investigate the question completely.

2. Our Saxon ancestors utterly discountenanced and prohibited the sale or exchange of any goods, merchandise, or cattle by private sale or bargain. It was a matter of fixed policy with them that no sales should take place except in the presence of witnesses. A series of kings made laws to this effect, and as these laws are to this very hour in spirit the Common Law of England, and are very little known, we may give a little space to quote them textually, as constitutional curiosities.

Thus, among the DOOMS, or Laws, which Hlothære and Eadric, kings of the Kentish men, about 683 A.D., established is this[2]—"16. If any Kentishman buy a chattel in Lunden-wic (London), let him then have two or three true men to witness, or the king's wic-reeve. If it be afterwards claimed of the man of Kent, let him then vouch the man who sold it to warranty, in the wic at the King's Hall, if he know him, and can bring him to warranty; if he cannot do that, let him prove at the altar, with one of his witnesses, or with the king's wic-reeve, that he bought the chattel openly in the wic, with his own property, and then let him be paid its worth; but if he cannot prove that by lawful averment, let him give it up, and let the owner take possession of it."

Among the Dooms of Ine, King of Wessex (688-725 A.D.), is this[3]—"25. If a chapman traffic up among the people, let him do it before witnesses. If stolen property be attached with a chapman, and he have not bought it before good witnesses, let him prove, according to the wite, that he was neither privy nor thief, or pay as wite thirty-six shillings.

Among the Dooms of Edward the Elder, son of Alfred (901-924, A.D.), is this[4]—"1. And I will that every man have his warrantor, and that no man buy out of port,[5] but have the portreeve's witness, or that of other unlying men whom one may

[1] *Vol. I., p.* 200.

[2] *Ancient Laws and Institutes of England; printed by command of William IV. p.* 14. *We quote the official translation of the Anglo-Saxon.*

[3] *Ibid., p.* 51. [4] *Ibid., p.* 68.

[5] *That is Market Overt; in Roman Law, Portus est conclusus locus quo importantur merces et inde exportantur. Est et statio conclusa et munita.*

believe. And if any one buy out of port, let him incur the king's ofer hyrnes." (*i. e.*, contempt, or hearing and refusing to obey, which incurred a penalty of 120s.)

Among the Dooms of Æthelstan (925-960, A.D.) is this[1]—"10. And let no man exchange any property without the witness of the reeve, or of the mass-priest, or of the landlord, or of the hordere, or of other unlying man. If any one so do, let him give thirty shillings, and let the landlord take possession of the exchange."

Among the Dooms of Edgar (959-975, A.D.) are these—

"4. To every burh let there be chosen thirty-three as witnesses.

"5. To small burhs, and in every hundred, twelve; unless ye desire more.

"6. And let every man, with their witness, buy and sell every of the chattels that he may buy and sell, either in a burh, or in a wapentake; and let every of them when he is first chosen as witness, give the oath that he never, neither for money nor for love, nor for fear, will deny any of those things of which he was witness, nor declare any other thing in witness, save that alone which he saw or heard; and of such sworn men, let there be at every bargain two or three as witnesses."

Among the Dooms of Ethelred (979-1016 A.D.) is this[2]—"3. And let no man buy or exchange, unless he have burh and witness; but if any so do, let the landlord take possession of, and hold the property, till that it be known who rightfully owns it."

Among the Dooms of Cnut the Great (1017-1035 A.D.) is this[3]—"24. And let no one buy anything above the value of four pence, either living or lying, unless he have the true witness of four men, be it within a burh, be it up in the country. For if it then be attached, and he have no such witness, let there be no vouching to warranty; but let his own be rendered to the proprietor; and the aftergild and the wite to him who is entitled thereto."

Among the Laws of Edward the Confessor (1043-1066 A.D.) is this[4]—"38. Defensum erat eciam in lege, ne aliquis emat vivum animal vel pannum usatum sine plegiis et bonis testibus

[1] *Ancient Laws and Institutes of England, p.* 87. [2] *Ibid., p.* 120.
[3] *Ibid., p.* 167. [4] *Ibid., p.* 191.

. . . . Et si venditor non potest habere plegios, retineatur cum pecunia donec veniat dominus ejus, aut quilibet alius, qui juste possit eum warantizare. Quod si aliter aliquis emerit, quod stulte emit perdat et forisfacturam."

William the Conqueror (1066-1087 A.D.) continued this law[1]—

"45. Nemo emat vel vivum vel mortuum ad valenciam IIII. denariorum, sine IIII. testibus, aut de burgo aut de villa campestri. Quod si aliquis rem postmodum calumpniatus fuerit, et nec testes habuerit nec warantum, et rem reddat et forisfacturam, cui de jure competit."

Also in a Charter granted by him he says[2]—

"10. Interdicimus eciam ut nulla viva pecunia vendatur aut ematur nisi intra civitates et hoc ante tres fideles testes; nec aliquam rem vetitam, sine fidejussore et waranto. Quod si aliter fecerit, solvat, et persolvat, et postea forisfacturam."

"11. Item nullum mercatum vel forum sit, nec fieri permittatur, nisi in civitatibus regni nostri, et in burgis [clausis] et muro vallatis, et in castellis, et in locis tutissimis, ubi consuetudines regni nostri, et jus nostrum commune, et dignitates corone nostre, que constitute sunt a bonis predecessoribus nostris deperire non possint, nec defraudari nec violari, sed omnia rite, et in aperto, et per judicium et justiciam fieri debeant."

And so also the *Mirrour of Justice*, which was originally written in French long before the Conquest, says, p. 14—"It was ordained that fairs and markets should be in places, and that the buyers of corn and cattle should pay toll to the lords' bailiff of markets or fairs; that is to say, a false penny of six shillings of good, and of good, less and of more, more; so that no toll exceed a penny for one manner of merchandise: and this toll was given to testify the contracts, *for that every private contract was forbidden.*"

3. And these ancient Dooms and enactments, are the foundation of the Common Law to the present hour. It is the established principle of Common Law that if any person steals or finds any chattel belonging to any one else, and sells it privately to a third person, the true owner may reclaim it from that third person, even though he bought it honestly, and gave full value, and had no suspicion that the seller had no title to sell it. For the

[1] *Ancient Laws and Institutes of England*, p. 209. [2] *Ibid.*, p. 212.

law holds in general that no one can sell what he does not possess himself; and it does not allow that the true owner has lost the property in the chattel or goods, by having accidentally mislaid them, or having them stolen from him.

If, however, the thief or finder manages to sell the goods in *market overt*, then the buyer is by common law entitled to retain them against the true owner.

However, by Statute 24 & 25 Vict. (1861), c. 96, § 100, it is now enacted that if the loser prosecutes the thief to conviction, then the court may grant a writ of summary restitution to the true owner of the property, in whose ever hands it may be, even though he may have bought it honestly, and given full value for it.

In the City of London every day except Sunday is, by ancient custom, market day; and every shop is market overt for the goods which are usually sold there, but for no others. It was held by all the judges[1]—"that if plate be stolen and sold openly in a scrivener's shop on the market day (as every day is a market day in London except Sunday), that this sale should not change the property; but the party should have restitution; for a scrivener's shop is not a market overt for plate, for none would search there for such a thing; *et sic de similibus, &c.* But if the sale had been openly in a goldsmith's shop in London, so that any one who stood or passed by the shop might see it, there it would change the property. But if the sale be in the shop of a goldsmith, either behind a hanging, or behind a cupboard upon which his plate stands, so that one stood or passed by the shop could not see it, it would not change the property; or if the sale be not in the shop, but in the warehouse or other place of the house, it would not change the property, for that is not in market overt, and none would search there for his goods. So every shop in London is market overt for such things only which by the trade of the owner are put there to sale."

But in country towns only those days are market days which are appointed by law or ancient custom; and those places only are market overt for any goods, merchandise, or cattle, which are expressly appointed for the sale of such articles. And, consequently, all sales of any articles made in any other than such places are void against the true owner, if the articles be not the

[1] *The case of Market Overt, 5 Co:* 83 *b., Hil.,* 38 *Eliz.*

property of the seller. We might, if necessary, illustrate these doctrines by several recent cases, but that would occupy too much space in such a work as this.

4. Such is the law with regard to all kinds of goods, merchandise, and cattle. But with regard to MONEY the case was always different. If a person stole or found money belonging to any one else, the true owner could compel him to give it up, if he could prove the fact, and identify the money. But if the finder or thief paid away the money in the ordinary course of business; as if, for instance, a shopkeeper sold goods to the thief, and took the money in the ordinary course of his business, without knowing that it was stolen, then he could retain the money against the true owner even though he could identify it. That is to say, the property in the money passed along with the honest possession of it in every sale or exchange. And from this peculiarity money was said to be CURRENT, *i. e.*, that the *property* in it passed by delivery. And this was necessary by the very nature of commerce, because no transactions could take place if the seller was bound in every sale to inquire into the right of the buyer to the money. And from this exceptional property of money, the expression arose of the CURRENCY of money, but no one for a very long time ever thought of such a barbarism as to call the money itself CURRENCY.

But when in the course of time Bills of Exchange, and other securities for money, came into use, it was adopted as a custom or usage by the Law Merchant, that the same rule should apply to them as applied to money; that is to say, that the property in them should pass with the honest possession. It would have been a great impediment to all commerce if the vendor of goods had been obliged to inquire into the title of any one who offered a Bill of Exchange or Bank Note in payment of them. Consequently this principle of CURRENCY was applied to all negotiable securities for money. It is so important that the doctrines relating to the Property of Negotiable Instruments should be generally known, that we subjoin them, as laid down in the Digest of the Law of Bills of Exchange, &c., which we prepared for the Royal Commissioners for the Digest of the Law :—

"37. 1. If any negotiable bill, note, obligation, or security

for money be lost or stolen the finder or thief cannot retain it against the true owner, or recover against the parties to it.

Anonymous, 1 Ld. Raym., 738. *Greenstreet* v. *Carr*, 1 Camp., 551. *Burn* v. *Morris*, 3 L. J. N. S. Ex., 193.

"2. But if such finder or thief, or if a person holding such security as AGENT (1) for the owner of it, pass it away or pledge (2) it for value, and the transferee is ignorant of the fraud, such innocent holder, or pawnee for value, may retain it against the true owner, and has a right of action against all the parties to it.

Bank Notes. *Anon.*, 1 Ld. Raym., 738. *Miller* v. *Race*, 1 Burr., 452. *Lowndes* v. *Anderson*, 13 East, 130. *Beckwith* v. *Corrall*, 2 C. & P., 261; 11 Moo., 335. *Snow* v. *Sadler*, 11 Moo., 506. *Raphael* v. *Bank of England*, 17 C. B., 161.

Cheques. *Grant* v. *Vaughan*, 3 Burr., 1516. *Carlon* v. *Ireland*, 5 El. & Bl., 765. *Rothschild* v. *Corney*, 9 B & C., 388. *Watson* v. *Russell*, 3 B. & S., 34; 5 B. & S., 968.

Bills of Exchange. *Peacock* v. *Rhodes*, 2 Doug., 633. *Lawson* v. *Weston*, 4 Esp., 56. *Crook* v. *Jadis*, 6 C & P., 191; 3 Nev. & Man., 257. *Backhouse* v. *Harrison*, 3 Nev. & Man., 188. *Goodman* v. *Harvey*, 4 A. & E., 870. *Uther* v. *Rich.*, 10 A. & E., 784. *May* v. *Chapman*, 16 M. & W., 355. *Thiedeman* v. *Goldschmidt*, 1 D. G. F. & G., 4.

Navy Bills. *Goldsmid* v. *Gaden*, 1 B. & P., 649.

Exchequer Bills. *Wookey* v. *Pole*, 4 B. & Ald., 1.

Foreign Transferable Bonds. *Gorgier* v. *Mieville*, 3 B. & C., 45.

(1.) *Bank of Bengal* v. *Macleod*; *Id.* v. *Fagan*, 7 Moo., P. C., 35, 61.

(2.) *Collins* v. *Martin*, 2 Esp., 520; 1 B. & P., 648. *Jones* v. *Peppercorne*, 1 John., 430.

"3. But if the transferee knows at the time of taking the instrument that it has been lost or stolen (1), or if he *knows* that the person he takes it from has no authority to sell or pledge it (2), or if it be taken for an illegal consideration (3), he cannot retain it, or recover on it, even though he has given full value for it.

(1.) *Burn* v. *Morris*, 3 L. J. N. S. Ex., 193.

(2.) *Maclish* v. *Ekins*, Say., 73. *Treuttel* v. *Barandon*, 1 Moo., 543. *Foster* v. *Pearson*, and *Stephens* v. *Foster*, 1 C. M. & R., 849. *Fancourt* v. *Bull*, 1 Bing., N. C., 681. *Willis* v. *Bank of England*, 4 A. & E., 21. *Whistler* v. *Forster*, 14 C. B., N. S., 248.

(3.) *Wynne* v. *Callander*, 1 Russ., 293.

"38. But if the instrument be not negotiable, or if the transferor held it as TRUSTEE, or if he acquired or transmitted it by means of a forgery, the innocent holder, or pawnee for

value, has only the equities of the transferor, and cannot retain it against the true owner, or recover on it.

Manningford v. *Toleman*, 1 Coll. C. C., 235. *Moore* v. *Jervis*, 2 Coll. C. C., 60. *Lang* v. *Smyth*, 7 Bing., 284. *Partridge* v. *Bank of England*, 9 C. B., 408. *Smith* v. *Mercer*, 6 Taunt., 76. *Hall* v. *Fuller*, 5 B. & C., 750. *Robarts* v. *Tucker*, 16 Q. B., 560. *Esdaile* v. *Lanauze*, 1 Y. & C., 394. *Johnson* v. *Windle*, 3 Bing., N. C., 225. *Whistler* v. *Forster*, 14 C. B., N. S., 248."

And so important is this principle of the CURRENCY of all negotiable instruments, that in the Statute respecting the restitution of stolen property, it is expressly provided that it shall not apply to negotiable instruments. It says[1]—"Provided that if it shall appear before any award or order made that any valuable security shall have been *bonâ fide* paid, or discharged by some person or body corporate liable to the payment thereof, or being a negotiable instrument shall have been *bonâ fide* taken or received by transfer or delivery by some person or body corporate, for a just and valuable consideration, without any notice or without any reasonable cause to suspect that the same had by any felony or misdemeanour been stolen or taken, obtained, extorted, embezzled, converted, or disposed of, in such case the Court shall not award or order the restitution of such Security,"

Thus we see that the law has taken the utmost precaution to preserve as absolutely inviolable the NEGOTIABILITY or CURRENCY of all negotiable instruments under all circumstances whatever. And if such a barbarism be generally accepted as to call money CURRENCY, for precisely the same reason all Negotiable Instruments must equally be called CURRENCY; for they are equally subject to the same rules of Law, from which they derive the name.

5. These doctrines, however, are so important as being at the very basis of the whole of our monetary system; and as they have given rise to so many controversies which are yet raging; and as they have been so misunderstood and misrepresented by literary men who never took the smallest pains to inquire into the law of the subject, that we think it will be more satisfactory to our readers not to rest satisfied with the preceding exposition, but to lay before them the actual decisions of the Courts of Law and Equity establishing them.

[1] 24 & 25 *Vict.* (1861), *ch.* 96, § 100.

We shall therefore demonstrate to our readers as matters of pure Commercial Law—(1.) That all Negotiable Instruments are subject to the same Law regarding their transfer and property, as MONEY. (2.) That it is from this property exclusively that the name CURRENCY has been derived; and (3) that all Negotiable Instruments are CURRENCY as well as Money.

1. *To shew that all Negotiable Instruments have the attribute of* CURRENCY, *i. e., are subject to the same Law regarding their transfer as Money.*

BANK NOTES.—(Anonymous, 1 Lord Raymond, 738.) A Bank bill was payable to A. or bearer. A. gave it to B. B. lost it, C. found it, and assigned it over to D. for valuable consideration. D. went to the bank and got a new bill in his own name. A. brought trover against D. for the former bill. And ruled by HOLT, C. J., at Guildhall, 1698, that an action did not lie against D. because he had it for a valuable consideration.

The leading case, however, on the subject is that of *Miller* v. *Race* (1 Burr., 452). Finney, the true owner of a Bank Note, sent it by post to a friend in the country. The mail was robbed, and on the next day the note came into the possession of the Plaintiff, Miller, for a full and valuable consideration, and in the usual course and way of his business, and without any notice of the robbery. Finney stopped the note at the Bank. A short time after Miller applied to the Bank for payment of the note, and delivered it to Race, the defendant, a clerk in the Bank. Race refused either to pay, or return, the note to Miller; and Miller brought this action to recover possession of the note. Lord Mansfield ruled, with the unanimous concurrence of the Court, that Miller had the right to have the note given back to him as his property, because Bank Notes have the Credit and the CURRRENCY of money, to all intents and purposes. An action would lie against the finder; that no one disputed: but *not after* the note had been *paid away in* CURRENCY. Lord Mansfield said that in the preceding case just cited, the action did not lie against the defendant because he took it in the course of CURRENCY; and therefore it could not be followed in his hands. It *never* shall be followed into the hands of a person who *bonâ fide* took it in the course of CURRENCY. A bank note is constantly and universally, both at home and abroad, treated as *money*, as *cash;* and it is

necessary for the purposes of commerce, that their CURRENCY should be established and maintained.

So in *Clarke* v. *Shee* (Cowp., 200), Lord Mansfield said—"Where notes or money are paid *bonâ fide*, and upon a valuable consideration, they shall never be brought back by the true owner; but where they come *malâ fide* into a person's hands, they are in the nature of specific property: and if their identity can be traced and ascertained, the party has a right to recover." And this doctrine is such firmly established law that there is no need to cite any more cases to support it.

CHEQUES.—In the case of *Grant* v. *Vaughan* (3 Burr., 1516), Vaughan gave a cash note (*i. e.*, a cheque) upon his banker to B. in these words, "Pay to ship 'Fortune' or *bearer*." B. lost the cheque. The finder, or the possessor of it, four days afterwards came to Grant's shop, and offered the cheque in payment of some goods he bought. Grant took the cheque in the usual course of business, and gave the balance in cash. Vaughan, hearing that the cheque had been lost, stopped the payment of it. Grant brought an action against him for the amount. Lord Mansfield held that the same rule applied to cheques payable to bearer as to bank notes. WILMOT, J., said that such bills or notes as this are by law negotiable. So also Yates, J., said "nothing can be more peculiarly negotiable than draughts or bills payable to bearer. . . . . It is just the same as a Bank Note." Hence this case established that Cheques possess the attribute of CURRENCY, exactly in the same way as Bank Notes: and this doctrine is so firmly established that it is needless to quote any more cases.

BILLS OF EXCHANGE.—In *Peacock* v. *Rhodes* (2 Douglas, 633), a Bill of Exchange indorsed in blank was stolen and negotiated. The innocent indorsee for value was held entitled to recover against the drawer. Lord Mansfield said—"The holder of a Bill of Exchange or Promissory Note is not to be considered in the light of an assignee of the payee. An assignee must take the thing assigned subject to all the equity to which the original party was subject. If this rule applied to Bills and Promissory Notes, it would stop their CURRENCY. The law is settled that a holder, coming fairly by a note or a bill, has nothing to do with the transaction between the original parties. I see no difference between a note indorsed blank, and one payable

to bearer. They both go by delivery, and possession proves property in both cases."

The same doctrine was again enforced in *Collins* v. *Martin* (1 B. & P., 648) where a banker pledged some of his customer's bills endorsed in blank with another banker, who advanced money on them honestly in the usual course of business. EYRE, C. J., delivering the judgment of the Court, said—"For the purpose of rendering Bills of Exchange negotiable, the Right of Property in them passes with the bills. Every holder with the bills takes the property, and his title is stamped upon the bills themselves. The property and the possession are inseparable. This was necessary to make them negotiable, and in this respect they differ essentially from goods of which the property and the possession may be in different persons." And this rule of law is so firmly established, that we need not quote any more cases in support of it.

FOREIGN BONDS.—In *Gorgier* v. *Mieville* (3 B. & C., 45), the plaintiff deposited a Prussian bond in the hands of his agent, to receive the interest on it for him. The bond was made payable to any person who at the time should be the holder of it. It was proved that these bonds were sold in the market, and passed from hand to hand daily like exchequer bills. The plaintiff's agent pledged the bond with the defendants. The Attorney General tried to draw a distinction between bank notes, bills of exchange, and exchequer bills, because such instruments constitute a part of the circulating medium of the country, but that rule did not apply to the bond of a foreign country. But ABBOT, C. J., said—"The instrument, in its form, is an acknowledgment by the King of Prussia that the sum mentioned in the bond is due to every person who shall for the time being be the holder of it, and the principal and interest is payable in a certain mode, and at certain periods mentioned in the bond. It is, therefore, in its nature precisely analagous to a bank note payable to bearer, or to a bill of exchange indorsed in blank. Being an instrument, therefore, of the same description, it must be subject to the same rule of law, that whoever is the holder of it, has power to give title to any person honestly acquiring it."

We have now sufficiently established our first point, that all Negotiable Instruments are subject to the same rule as money

with regard to title by transfer, and we now come to the two latter points, which we may conveniently take together.

2. *To shew that it is this principle of Negotiability which in Commercial Law exclusively is meant by* CURRENCY; *and also that all Negotiable Instruments are* CURRENCY.

The leading case on this subject is *Wookey* v. *Pole, Bart., & others* (4 B. & Ald., 1), and as it is absolutely decisive of the question, we must quote it at considerable length.

Wookey was proprietor and possessor of an Exchequer bill for £1,000, payable to blank or order. The bill stated that if the blank was not filled up it would be payable to bearer.

Wookey sent the Exchequer bill to his brokers, directing them to sell it and buy 5 per cent. stock with the proceeds. The brokers disobeyed these orders, and pledged the Exchequer bill with Pole & Co., their bankers, and got the full amount of it, £1,000, placed to their credit, without the bankers having any knowledge of the terms on which the brokers held the bill. As soon as Wookey heard of these proceedings, he demanded the bill from Pole & Co., who refused to deliver it up, and afterwards sold it and received the proceeds. Wookey brought trover against Pole & Co. for the bill.

Wookey's counsel said the question was whether the Exchequer bill was to be considered as money or goods. If it were goods it might be followed into the hands of a third person, unless it be transferred by the owner or under his authority, or by sale in market overt. Money, Bank Notes, and Bills of Exchange could not be recovered from an innocent holder for value, because they are the CIRCULATION of the country: but Exchequer bills constitute no part of the CURRENCY of the country, nor are they Negotiable Instruments.

In giving judgment, BEST, J., said—"The question which the Court is called on to decide is, whether Exchequer bills are to be considered as goods, or as the representatives of money; and as such, subject to the same rules as to the transfer of the property in them as are applicable to money. The delivery of goods by a person who is not the owner (except in a manner authorised by the owner) does not transfer the right to such goods: but it has long been settled that the right to money

is inseparable from the possession of it. I conceive that the representative of money, which is made transferable by delivery only, must be subject to the same rules as the money which it represents. . . . . It is not because the loser cannot know his money again that he cannot receive it from a person who has fairly obtained possession of it; for if his guineas or shillings had some private marks on them, by which he could prove they had been his, he could not get them back from a *bonâ fide* holder. The true reason of this rule is that by the use of money the interchange of all other property is most readily accomplished. To fit it for its purpose the stamp denotes its value, and possession alone must decide to whom it belongs. If this be correct as to money, it must be so as to what is made to represent money, and Lord Holt has himself so decided. . . . . It cannot be disputed but that this Exchequer bill was made to represent money, as much as a Bank Note or Bill of Exchange. It was given for a debt due from Government: it is payable (the blank not being filled up) to bearer, and transferable by delivery, and is on its face made CURRENT, *and to pass in any of the public revenues, or at the receipt of the Exchequer*. But it has been said that these bills are not used as Negotiable Instruments, as bank bills and bills of exchange are, but are the objects of sale. I do not see why they should not be used as Negotiable Instruments: they are transferred with the same facility as other bills, and I know from the legislature that they may be used in payments, for the statutes direct that they should be received for taxes. We know that bills of exchange are as frequently sold as they are delivered in payment. . . . . The receiver never enquires from whom they come, further than to satisfy himself that they are genuine bills. Indeed, when they are in blank, he has no means of ascertaining from whom they come. . . . . It seems to be the opinion of L. C. J. Lee, who pronounced the judgment of the Court of K. B. in *Hartop* v. *Hoare* (3 Atkyns, 50), that there is no difference between money, bank notes, and exchequer bills. . . . . This also gives me the authority of Lord Holt for saying that there is no difference between *bank* and *exchequer notes*; and the same learned judge has decided that bills of exchange pass as money. Should the deposit of this bill with the defendants, under the circumstances in which it was deposited, be considered as pledging the bill, that circumstance

will make no difference, if the property in the bill passes by delivery." Best, J., then agreeing with *Collins* v. *Martin*, cited above, gave his opinion against the plaintiff.

HOLROYD, J.—"It has been long and fully settled that bank notes or bills, drafts on bankers, bills of exchange, or promissory notes, either payable to order and indorsed in blank, or payable to bearer, when taken *bonâ fide*, and for a valuable consideration, pass by delivery; and vest a right thereto in the transferee, without regard to the title, or want of title, in the person transferring them. This was decided as to a bank note in the case of *Miller* v. *Race;* as to a draft on a banker in *Grant* v. *Vaughan;* and as to a bill of exchange indorsed in blank, in *Peacock* v. *Rhodes*. Those cases have proceeded on the nature and effect of the instruments, which have been considered as distinguishable from goods. In the case of goods, the property, except in market overt, can only be transferred by the owner, or some person having either an express or implied authority from him; and no one can, by his contract or delivery, transfer more than his own right, or the right of him under whose authority he acts. But the Courts have considered these instruments, either promises or the orders for the payment of money, or instruments entitling the holder to a sum of money, as being appendages to money, and following the nature of their principal. In the one case they are payable to the person, whoever he may be, who is the bearer or holder of the instrument; and so also in the other case, unless the payment is restrained by a special indorsement." After quoting the judgments in *Peacock* v. *Rhodes* and *Miller* v. *Race*, given above, he said—"These authorities shew, that not only money itself may pass, and the right to it may arise by CURRENCY alone, but further that these mercantile instruments, which entitle the bearer of them to money, may also pass, and the right to them may arise, in the like manner, by CURRENCY or DELIVERY. These decisions proceed upon the nature of the property (viz., money) to which such instruments give the right, and which is itself CURRENT; and the effect of the instruments, which either give to their holders, merely as such, the right to receive the money, or specify them as the persons entitled to receive it. The question, then, is whether these principles apply to the present case, or whether this exchequer bill and the right thereto, follow the nature of goods, which, except in market

overt, can only be transferred by the owner, or under his authority? In order to ascertain that, we must consider the nature and effect of the instrument, both as to the property which it concerns, and as to its NEGOTIABILITY or CURRENCY by law. In its original state it purports to entitle the holder to the sum of £100 and interest; and the original holder may, if he pleases, secure it to himself; but it is payable to the bearer until some name is inserted, and when that is done it becomes payable to such nominee, or his order. But if the original holder parts with it or keeps it in blank, he by that very act, or by his negligence if he loses it, authorises the bearer, whoever he may be, to receive the money; and so if he were to insert his own name, but indorse it in blank, instead of restraining its negotiability, either by not indorsing it at all or by making a special indorsement, he thereby authorises and empowers any person who may be the holder *bonâ fide*, and for value to receive it: and he cannot revoke that authority when it has become coupled with an interest. The instrument is created by the Statute 48 Geo. 3, c. 1, and is thereby made NEGOTIABLE and CURRENT. By § 2 the Commissioners of the Treasury are to make out exchequer bills, in such manner and form as they shall direct: and after certain things are done to put them into CIRCULATION. By § 5 they may be paid in to the receiver of taxes; and in § 13 are these words—'And for the better supporting the CURRENCY of the said exchequer bills, and to the end that a sufficient provision may be made for *circulating and exchanging the same for ready money*, during such time as they or any of them are to be CURRENT, the Commissioners of the Treasury are empowered to contract with persons who will undertake to circulate and exchange them for ready money.' An exchequer bill is therefore an instrument for the repayment of money originally advanced to the public, purporting thereby to entitle the bearer to receive the money put into circulation, and made CURRENT by law. It is not, therefore, like goods saleable only in market overt, and not otherwise transferable, except by the owner or under his authority, but is in all those several respects similar to bills of exchange and promissory notes, and transferable in the same manner as they are. The case, therefore, stands thus: this exchequer bill was a CURRENT and NEGOTIABLE Instrument for the payment of money. Now money passes from

one person to another by reason of its CURRENCY, and for that reason only, and not because it has no ear-mark, it cannot be recovered from the person to whom it has been passed. The exchequer bill, therefore, seems to me, upon the same principle, to follow the nature of the money for which it is a security. . . . . This, like the case of a bill indorsed in blank, is payable to bearer, where the right arises from the instrument itself, and it is not necessary to deduce the title through the intermediate holders."

"BAYLEY, J., quite concurred in the doctrine as to bank notes and bills of exchange — A pawnee of goods or chattels, or a vendor out of market overt, has in general no better title than his pawnee or vendor, and cannot resist the claim of the rightful owner: but bank notes and bills of exchange stand upon a different footing in this respect from ordinary goods and chattels. The holder *bonâ fide*, and for a valuable consideration of a bank note or bill of exchange, has a good title against all the world; because, in the case of bank notes, they are considered as money, and pass as such, and it is essential for the purposes of trade that delivery should give a perfect title, and because in the case of bills of exchange this is the law and custom of merchants." J. Bayley came to the conclusion that exchequer bills were of the nature of goods, and not of bank notes and bills of exchange.

"ABBOTT, C. J., however, agreed with the two former learned judges, and said—I think this instrument is of the same nature as notes and bills of exchange. . . . . Notes and bills have been distinguished from goods in regard to their transfer, for the convenience of trade and commerce, and in regard to their being mercantile and commercial instruments, and by law negotiable. It may be true that exchequer bills are not so frequently negotiated, in fact, as some other bills or notes; but I think we are to regard the negotiability of the instrument, and not the frequency of actual negotiation. . . . . Compulsion to receive an instrument in payment is not by any means requisite to give to it the character of a Negotiable Instrument. No man is compelled to take a bill of exchange in payment. . . . . For these reasons I am of opinion that exchequer bills are negotiable, and may be transferred in the same manner as bills of exchange: and that in those bills, as in bills of exchange, the

property passes with the possession by every mode of transfer, fraud and collusion apart."

In *Ingham* v. *Primrose*, (7 C. B. N. S., 85) WILLIAMS, J., delivering the judgment of the Court, said—"It is, we think, settled law that if the defendant had drawn a cheque, and before he had issued it he had lost it, or it had been stolen from him, and it had afterwards found its way into the hands of a holder for value without notice, who had sued the defendant upon it, he would have had no answer to the action. So if he had indorsed a bill in blank, or a bill payable to his order, and it had been lost or stolen before he delivered it to any one as indorsee. The reason is that such Negotiable Instruments have by the law merchant become part of the MERCANTILE CURRENCY of the country; and in order that this may not be impeded, it is requisite that innocent holders for value should have a right to enforce payment of them against those who, by making them, have *caused them to be a part of the* CURRENCY. . . . . If an act done with such an intention (*i. e.*, of cancelling it) by the maker of a Negotiable Instrument, does not manifest the intention on the face of the instrument, it can hardly be maintained that the Act would be of any efficacy, because the instrument would nevertheless be apparently a part of the MERCANTILE CURRENCY."

In *Whistler* v. *Forster* (14 C. B. N. S. 248), ERLE, C. J., said—"According to the law merchant, the title to a Negotiable Instrument passes by indorsement and delivery. A title so acquired is good against all the world, provided the instrument is taken for value, and without notice of any fraud.

"WILLES, J.—The general rule of law is undoubted, that no one can transfer a better title than he himself possesses; Nemo dat quod non habet. To this there are some exceptions: one of which arises out of the rule of the law merchant as to Negotiable Instruments. *These being part of the* CURRENCY, are subject to the same rule as money."

In *Shute* v. *Robins* (1 M. & M., 133), Lord Tenterden spoke of bankers' paper as being part of the CIRCULATING MEDIUM of the country.

7. We have thus laid before our readers an authoritative exposition of the true legal meaning of the word CURRENCY, and the subjects which are included in it. We see by a series of

decisions which are now the established Commercial Law of the country, that the word CURRENCY means simply NEGOTIABILITY, and nothing else, *i. e.*, that the property and the honest possession of those things which possess this exceptional attribute are inseparable, contrary to the general principles of the common law regarding stolen goods, merchandise, and cattle. And what does this exceptional class of articles include? Why, Money, and all Negotiable Securities to pay money of all sorts and forms, bank notes, cheques, bills of exchange, promissory notes, bonds of all sorts; in fact, money, and every kind of negotiable engagement to pay money.

It will be seen, then, that in strict legal phraseology the word CURRENCY can only be applied to those Rights which are recorded on some material. An abstract Right cannot be lost, mislaid, or stolen and passed away in commerce. But if it be recorded on some material substance, it may then be lost, or stolen, and sold like any other material substance: and the word CURRENCY, then, simply refers to some legal rules relating to the transfer of the property in it, in the case of its being stolen and passed away in commerce. For an obligation to be capable of being CURRENCY in law, it must be recorded on some material so as to be capable of being carried in the hand, or put away in a drawer, and dropped in the street, and stolen from the drawer or from a man's pocket, and carried off by the finder, or thief, and sold like a piece of goods. The word CURRENCY has no reference whatever to any property it has of paying, discharging, and closing debts.

Nothing, therefore, can be more unphilosophical *primâ facie* than to designate the articles themselves by the name of CURRENCY, because they possess the attribute of CURRENCY. It is quite common to speak of the Currency of an opinion; but no one ever yet, that we are aware of, thought of calling the opinion itself Currency. It is quite usual to speak of the Currency of the session of Parliament; but nobody ever called the session itself Currency. This very confusion is also used in speaking of bills of exchange; because it is a common expression to speak of the currency of the bill, meaning the *time* during which it is Current; whereas the bill itself is called Currency because the property in it passes by delivery. It would be just as rational to call a horse a velocity, or a wheel a rotation, as to call money

Currency; and we have shewn that in the earlier legal reports no one ever thought of such a barbarism.

Nevertheless, if the force of public usage is too strong to be shaken, and the word CURRENCY is too firmly established as the designation of a certain class of articles to be rejected, we must disregard its literal legal meaning, and observe its philosophical sense; because there is an enormous mass of Credit, or Rights, which is not embodied in any material instrument, and which therefore cannot be lost, stolen, or passed away in commerce without the owner's consent: and, consequently, though these cannot be subject to the legal rules of CURRENCY, they perform a gigantic part in commerce, just in the same way as if they were recorded on paper.

Taking a banker and his customer as the standard case of debtor and creditor, if I have a right of action against my banker for money, it makes not the slightest difference in the nature of the Right whether it is recorded on paper or not. If I wish to transfer the Right to some one else, I may do it by means of a bank note or cheque, or a verbal order to my banker to transfer a certain quantity of the credit in my name to some one else's name. We have already shewn that in Roman law, where written instruments were not used, the creditor, the debtor, and the assignee were obliged to meet, and the creditor transferred the debt orally to the assignee. This was a valid transfer. And such a mode of proceeding is a valid transfer in English law at the present day. But in a vast number of cases this is a very clumsy and inconvenient way of transferring debts. It is infinitely more convenient to do so by writing. But whether the transfer be effected orally or by writing, it can make no possible difference in the nature of the Right. Consequently, if I have a Right against my banker, and if I write a cheque for the purpose of transferring this Right to some one else, this does not affect the nature of the existing Right: it is nothing more than a convenient way of transferring it to some one else. Writing a cheque does not create a new Right; it merely records on paper an existing Right. And it equally exists whether it is recorded on paper or not. Payment, therefore, by means of a bank note, a cheque, or a bank credit, is absolutely the same. Now, bank notes and cheques are Currency in strict legal phraseology; but bank credits are not Currency, because they

cannot be lost, mislaid, stolen, and passed away in commerce without the consent of the owner.

So also of a book credit, or book debt, in a tradesman's books. If I buy goods from a tradesman on credit, that credit has performed exactly the same part in CIRCULATING the goods as money: because we have expressly defined Circulation to be the sale of goods for money or credit, and the credit has been equally the medium of circulation, or sale, whether it is recorded on paper or not; but it is not CURRENCY, because it cannot be dropped in the streets, stolen, and transferred to some one else by manual delivery.

If, then, we are compelled to adopt this barbarism, and employ the word CURRENCY as a philosophical term, it must most manifestly be extended to include bank credits or deposits, book credits, and verbal credits of all descriptions.

And this is exactly what commercial law does. It treats any form of credit payable by a banker on demand, as money or cash, no matter whether it be a bank note, a cheque, or a bank credit. They are all in the eye of the law equally payment: that is, none of them are legal *money:* that is, a debtor cannot compel his creditor to take them in payment of a debt: but if he chooses to do so without objection, they all stand on exactly the same footing as payment. The case of bank notes is so well known that we need not cite any authorities. With regard to cheques, Lord Mansfield said, in *Grant* v. *Vaughan,* that a cheque is the same thing as a bank note. In *Pearce* v. *Davis* (1 Moo. & Rob.), PATTESON, J., said that a cheque "operates as payment until it has been presented and refused." So in *Jones* v. *Arthur* (8 Dowl., 442), COLERIDGE, J., held that tender of payment by cheque is good unless objected to on that account. Also in *Bevan* v. *Hill* (3 Camp., 381), where a person having accepted a cheque in payment, and lost it, and the banker failed, having funds to meet the cheque, Lord Ellenborough held that the cheque was payment.

And the very same doctrine is true regarding a Bank Credit or Deposit. In *Gillard* v. *Wise* (5 B. & C. 134), HOLROYD, J., said—"The defendants, instead of sending a clerk to receive cash for the notes, sent them to the persons who ought to have paid them; but they sent them, not for the purpose of being paid in money, but of being placed to their credit in account.

When that credit was given, the legal effect was the same as if the notes had been paid to them in money."

Thus a Right of Action against a banker payable on demand is, in commercial circles, considered as money, or cash, whether it be in the form of a bank note, a cheque, or a bank credit: and though, of course, in the strict *legal* sense, only the two former can be CURRENCY, yet, in a philosophical sense, if we are compelled to adopt the word, all three forms must be CURRENCY.

7. And so in other points of Law Bank Notes and Bank Credits are held to be included in the term money, or cash. In the case of *Lord Aylesbury's will*, Lord Hardwicke held that bank notes passed under the title of cash: and in *Miller* v. *Race* Lord Mansfield said, "bank notes pass by a will which bequeaths all the testator's money or cash."

But the very same doctrine is held regarding a Bank Credit, or deposit, or a balance on a banking account. Thus in *Vaisey* v. *Reynolds* (5 Russ., 12), the testator bequeathed "to his wife all his book debts, *monies in hand*; and to his executors all his monies out at interest or mortgage, notes of hand, or any security whatsoever." Lord LYNDHURST said—"The testator has referred to two descriptions of monies, monies in hand, and monies out at interest on mortgage, notes of hand, and other securities. The balance in the banker's hands, though it carries interest, was not out at interest or security, and it was in the same order and disposition of the testator, as if it had been deposited in his own drawer. It must be inferred that the testator meant to pass it by one of the two descriptions which he has used. In no sense was it money on security, and in a reasonable sense it was money in hand, and passed therefore to the wife."

So in *Taylor* v. *Taylor* (1 Jurist., 401) where the testator bequeathed all his ready money, Lord LANGDALE said—"It is true that in strict legal language, what is called money deposited at a banker's is nothing more than a debt, and cannot be called ready money, but in the ordinary language of mankind money at a banker's is called ready money, and we must construe a will according to the ordinary language of mankind."

Again in *Parker* v. *Marchant* (1 Y. & C., 290), BRUCE, V. C.,

said—"Undoubtedly an ordinary balance in a banker's hands is, in a sense, a debt due from him—certainly he may be sued for it as a debt. But it may be equally true that in a sense it is ready money. . . . . The term 'debt,' however technically correct, is not colloquially, or familiarly applied to a balance at a banking house. No man talks of his banker in that character being indebted to him. Men speaking of such a subject say that they have so much at their banker's, or so much in their banker's hands, a mode of expression indicating virtual possession, rather than that right to which the law applies the term *chose-in-action*. . . . . Agreeing that the term (ready money) is applicable to money in the purse, or the house, I cannot agree that it is confined to money so placed. Money paid into a banking house, in the ordinary mode, is so paid for the purpose of being not safe merely, but *ready* as well as safe." And, consequently, the V. C. held that a Bank Credit, or deposit passed under the term "ready money." And this opinion was confirmed on appeal (1 Phil., 356) by Lord LYNDHURST—"Nobody can doubt that in the ordinary use of language, money at a banker's would be considered as 'ready money.' Everybody speaks of the sum which he has at his banker's as money: 'my money at my banker's' is a usual mode of expression. And if it is money at the banker's, it is emphatically ready money, because it is placed there for the purpose of being ready when occasion requires: it is received upon the understanding that it shall be so ready. If a man goes to his banker, the money is counted out to him on the table. If he sends an order for the money, it is counted out to his servant, or the person in whose favour that order is made. I consider, therefore, that it is strictly 'ready money' according to the ordinary acceptation of those terms among mankind."

So again in *Manning* v. *Purcell* (2 Sm. & Giff., 284) the question was whether a balance on a current account, and a balance on a deposit account payable on demand, passed under the word moneys in a will, STUART, V. C., said—"The question as to the next subject of gift which the plaintiffs deny to be included in the gift of 'moneys,' is as to the balances of the testator at his bankers'. The testator seems to have had balances upon a current account, and balances upon a deposit account. Now, the balance upon the current account certainly passed. It is also my

opinion that the money, the evidence of which was the deposit notes, also passed under the description of moneys. It has been maintained in argument, that the deposit notes are the vouchers given by the bankers with whom the deposits were made as security for money, and they have been likened to the case of money secured by a bond. It is said that the balance due is simply a debt, and the deposit note is evidence of the debt, just as a bond, which shews a debt, and binds the obligor to the payment of it. But moneys deposited by a testator with his bankers, on a deposit account, the balance carrying interest, is so much money at the disposal of the testator, and is as readily accessible by him as moneys in an ordinary current account. The fact that interest is allowed upon these deposits, is a reason for the depositor more reluctantly drawing upon his deposit account; but in point of fact, there is no distinction at all shewn to me upon the custom of the bankers. The bankers have been examined in this case, and the habit is so notorious on this, that it would not require evidence to shew that where a banker holds money for which he gives a deposit note, it is just as accessible to his customer as if it were held on a current account.

"If a customer having a balance of £10,000 at his bankers' wants £1,000, he must take a piece of paper and deliver it to the bankers before the bankers would pay him the money which they hold for him. Now, with respect to the deposit money, the customer, if he wants that money, or any part of it, must bring the deposit receipt instead of an ordinary cheque; but that does not make it less accessible to him than if the bankers held it liable to be paid on cheques. If the slightest doubt were cast upon the accessibility of a depositor's money which a banker holds on deposit receipts, it would soon put an end to the account altogether.

"My decision proceeds upon this, that as to the deposit note, as much as to the current account, the relation of banker and customer exists; that the bankers holding money of a customer, whether on a deposit account or a current account, unless there is some express contract to take it out of the ordinary case of deposit, holds it as money, and as money, so readily accessible to the customer on the relation of banker and customer, that it is held to pass under the description of money generally."

8. The importance and the practical bearing of these investigations and decisions are evident. In modern times private bankers discontinued issuing notes, and merely created Credits in their customers' favour to be drawn against by Cheques. These Credits are in banking language termed Deposits. Now many persons seeing a material Bank Note, which is only a Right recorded on paper, are willing to admit that a Bank Note is cash. But, from the want of a little reflection, they feel a difficulty with regard to what they see as Deposits. They admit that a Bank Note is an "Issue," and "Currency," and "Circulation," but they fail to see that a Bank Credit is exactly in the same sense equally an "Issue," "Currency," and "Circulation."

When a banker, in exchange for money, or in exchange or the purchase of a Bill of Exchange, gives his Notes to his customer, he creates and ISSUES a Right of Action against himself, which the customer may transfer to any one else. But also when a banker in exchange for money, or in exchange for a Bill of Exchange, creates a Credit in his books in his customer's favour, he equally creates and "ISSUES" a Right of Action against himself: and by delivering a cheque book to his customer he thereby engages to pay the Credit to any one else to whom his customer may transfer it. Either form of Credit, therefore, is equally the ISSUE of a Right of Action to the customer. He has exactly the same right to demand payment of his Credit from the banker, and exactly the same right to transfer it to any one else, whether it be by Note or by Cheque.

Unreflecting persons see only so many figures in a book: they are startled at hearing them called Wealth: but, in fact, these figures are only the evidence of so many transferable rights of action in the persons of the bankers' creditors. These Rights are just as much "issued" and in "circulation" as if they were Notes. They are equally liabilities to pay on demand. No doubt it is usual in bank returns to distinguish between Notes and Credits; but suppose they were not so distinguished, but merely called liabilities, would not every one see that they stand on exactly the same footing? Would any one then make any difference between them?

Thus these Bank Credits, or Deposits, are a mass of Property, just like so much corn or timber; they are *Pecunia, Bona, Res, Merx*; they are now, though, of course, legally only debts for all

practical purposes, the current coin of commerce: and the great medium of payment of the country: and specie is now only used occasionally, and as a supplement to payments in Credits of different forms.

Nothing can be more unfortunate or misleading than the expression which is so frequently used that banking is only the "Economy of Capital," and that the business of a banker is to borrow money from one set of persons and to lend it to another set. Bankers, no doubt, do collect sums from a vast number of persons, but the peculiar essence of their business is, not to lend that money to other persons, but on the basis of this bullion to create a vast superstructure of Credit; to multiply their promises to pay many times: these Credits being payable on demand and performing all the functions of an equal amount of cash. Thus banking is not an Economy of Capital, but an increase of Capital; the business of banking is not to lend money, but to create Credit: and by means of the Clearing House these Credits are now transferred from one bank to another, just as easily as a Credit is transferred from one account to another in the same bank by means of a cheque. And all these Credits are in the ordinary language and practice of commerce exactly equal to so much cash or Currency.

9. After the authoritative exposition we have given above of the real meaning of the word CURRENCY, and the judicial decisions of what it includes, it is rather a work of supererogation to cite the opinions of lay writers. The controversies as to the meaning of Currency did not arise until Smith had been several years in his grave; but we think that no one who reads his work can form any doubt but that bills of exchange are necessarily included under his designation of paper money. The question, however, is extremely unimportant, and would take far too much space to examine thoroughly.

The first occasion on which we have met the term Circulating Medium is in the debate on the Bank Restriction Act, 1797,[1] in which Mr. Fox said he wished that gentlemen, "instead of amusing themselves with new terms of 'Circulating Medium' and the like," which shews that it must then have been of very recent introduction. Mr. Pitt, in his reply, said—"As so much has been

[1] *Parliamentary History of England, Vol. XXXIII., p.* 340.

said upon the nature of a Circulating Medium, he thought it necessary to notice that he did not for his own part take it to be of that empirical kind which had been generally described. It appeared to him to consist in *anything* that answered the great purposes of trade and commerce, whether in specie, paper, or any other term that might be used." It is quite evident, therefore, that bills of exchange, cheques, and bank credits would all be included under such a designation, because they all effect the circulation of merchandise.

The first place in which we have met the doctrine that the word Currency, or Circulating Medium, is to be restricted to specie and Bank Notes only, is in a letter of Mr. Boyd, a well known financial agent, to Mr. Pitt. He says, p. 2—"By the words 'Means of Circulation,' 'Circulating Medium,' and 'Currency,' which are used almost as synonymous terms in this letter, I understand always *ready money*, whether consisting of Bank Notes or specie, in contradistinction to Bills of Exchange, Navy Bills, Exchequer Bills, or any other *negotiable* paper, which form no part of the circulating medium, as I have always understood the term. The latter is the circulator; the former are merely objects of circulation." But Mr. Boyd, in his preface, says—"But from the mere return of bank notes (without that of the *balances on the books*, for which the bank is likewise liable, and of the specie in its coffers) no accurate estimate can be formed of the positive difference between the present and the former circulation." Mr. Boyd, therefore, expressly includes Bank Credits, or Deposits, under the title Currency, and as his notion of Currency was ready money, it is quite evident that Cheques were also Currency in his opinion, because we have seen that Mercantile Law considers Bank Notes, Cheques, and Bank Credits, as all equally ready money.

Whether this opinion of Mr. Boyd's gained any adherents we cannot say; but, in opposition to this novel doctrine, Mr. Henry Thornton, one of the authors of the Bullion Report, said[1]—"A multitude of bills pass between trader and trader in the country in the manner that has been described; and they evidently form, in the strictest sense, a part of the Circulating Medium of the country." And in a note on this passage he says—"Mr. Boyd, in his publication addressed to Mr. Pitt on the subject of the Bank

[1] *Inquiry into the Nature and Effects of the Paper Credit of Great Britain*, p. 40.

of England issues, propagates the same error into which many others have fallen, of considering bills as no part of the circulating medium of the country." After quoting the above passage from Mr. Boyd, he says—"It will be seen in the progress of this work, that it was necessary to clear away much confusion which has arisen from the want of a sufficiently full acquaintance with the several kinds of paper credit, and, in particular, to remove, by a considerable detail, the prevailing errors respecting the nature of bills, before it could be possible to reason properly upon the effects of paper credit."

Certainly no influential person at that time adopted such an opinion, and we may quote a passage from the speech of the Marquis of Tichfield, one of the most distinguished of the rising men of the day, on Mr. Western's motion, in 1822, regarding the Act of 1819. He said—"Economy of money was, by contrivances to spare the use of it, according to the description of his right honourable friend, by substitution of the precious metals in the shape of voluntary credit. Every new contrivance of this kind, and every one improved, had that tendency. When it was considered to how great an extent these contrivances had been practised, *in the various modes of verbal, book, and circulating credits, it was easy to see that the country had received a great addition to its Currency. This addition to the Currency would, of course, have the same effect as if gold had been increased from the mines.*" Here, therefore, we see it explicitly stated that credit, in all its shapes and forms, was independent, exchangeable property, of the value of, and producing the same effects as, gold.

10. A few traces of Mr. Boyd's opinion may be discovered in certain writers after this period; but, as this view was most prominently brought forward before the Committee of 1840, we may pass at once to that.

Mr. J. B. Smith, President of the Chamber of Commerce of Manchester, said that he thought Circulation and Currency were the same (Q. 40); that deposits were Currency, which was, in fact, another word for liabilities.

70. *Mr. O'Connell*—"There is another description of paper in circulation, namely, bills of exchange; do you include those also in your description of the Currency?—I do not consider bills of exchange as Currency.

71. "What is the difference between a bill of exchange which is passing from hand to hand and commanding property in return for it, and a bank note which is performing the same functions, supposing each to be worth £100?—I consider a bill of exchange to be a debt.

72. "Is not a bank note a debt?—The difference between a bill of exchange and currency would be this, that currency would discharge the debt; the payment of a bill of exchange is not the discharge of a debt till it is due.

78. *Mr. Smith*—"Supposing this case to happen, that the same bill of exchange passed through a banker's hands six times in one day on the account of different persons having accounts with this bank, should you not say that that bill of exchange discharged the functions of currency?—It is a mere transfer, after all, from hand to hand, with, every time it is indorsed, an additional security.

79. "Supposing it not to be indorsed, can you point out the difference between that and a Bank of England note?—The difference between a Bill of Exchange and a Bank of England note in any transaction, is that a Bill of Exchange is a debt, and it continues a debt till it is discharged by a Bank of England note, or by some other Currency, which is a full discharge of the debt.

80. *Sir R. Peel*—"What does a Bank of England note profess upon the face of it; is it not 'I promise to pay?'—Precisely so.

81. "Is not that evidence of a debt?—Certainly, but it is legal tender.

82. "Supposing a law were passed permitting a gold circulation to continue, and prohibiting the issue of notes by the Bank, do you not think that the measure which traders would resort to would be to supply the deficiency by Bills of Exchange?—It is probable; it might be so.

83. "Would not they answer the purposes of Currency?—Bills of Exchange do not perform the functions of Currency, but they are instruments by which commodities are exchanged, equally with every other mode of Credit, but requiring money for their discharge.

84. "Though there is a difference in the nature of the transactions between the issue of a note, payable on demand, and passing of a bill of exchange, is there any substantial difference in their

sensible effect on the Currency of the country?—I do not think that Bills of Exchange affect the Currency, though the Currency has a very important influence on Bills of Exchange.

87. "Do not you recollect, that during the Bank restriction law, there did not remain a circulation of Bank of England notes in parts of Lancashire for the discharge of small payments, but that, in point of fact, the great commercial transactions of Lancashire were carried on by the intervention of Bills of Exchange, performing the ordinary functions of currency by means of promissory notes?—Unquestionably, and a very large amount of these payments are still in existence.

88. "When payments do take place by these means, do not Bills of Exchange answer, in a great measure, the functions of promissory notes, though there is a difference in the character of the transaction between a Bill of Exchange and a promissory note?—Yes, they are a medium for the exchange and distribution of commodities, no doubt.

89. "They are the representatives of commodities?—Yes; they are representatives of transactions in commodities.

90. "Then are they not Currency?—No, I do not think that follows.

91. *Mr. O'Connell*—"What is Currency but an instrument of exchange?—It is an instrument of exchange, but it is an equivalent also for commodities.

92. "A Bill of Exchange performs that function, it assists to exchange commodities?—Yes, a Bill of Exchange assists in the exchange and distribution of commodities.

93. "Then it has that function of Currency?—Yes, it has.

94. "Then, having that function of Currency, which, perhaps, is the only function, can you distinguish that from Currency? What is there in your mind to induce you to say that that is not Currency which performs the functions of Currency?—I have already explained that the difference between a Bill of Exchange and Currency is this, that the one discharges a debt and the other does not.

95. *Mr. Warburton*—"If a party receiving a Bill of Exchange indorsed, were to give you a receipt in full for the payment of the debt, would not that Bill of Exchange perform precisely the same functions as a bank note does?—Yes, but it would be merely a

party consenting to accept a debt due from another person in full discharge of the debt due to himself.

96. *Mr. Herries*—"Is not that a very common proceeding in trade?—I am not aware of that. If I am asked whether parties accept Bills of Exchange for debts, that is a fact, but whether they accept them in full discharge of a debt contracted, I am not aware.

97. *Mr. Gisborne*—"Do you consider a £10 note of a country bank, a joint stock bank, to rank under Currency, or to rank under Bills of Exchange?—Under Currency.

98. *Mr. Grote*—"Suppose there was a seven-day post bill issued by a banker, would you consider that a part of the Currency?—No.

99. *Mr. Labouchere*—"Suppose it was a seven-day post bill issued by the Bank of England?—No, not until discharged.

100. *Mr. O'Connell*—"A cheque on the Bank is Currency in London, is it not?—It performs the function of Currency; it is a transfer of Currency from one to another.

118. *Mr. Wood*—"Will you define what you mean as constituting the entire Currency of the country?—I should define Currency to be gold and silver, or the promises of bankers to pay on demand, which either constitute a legal tender, or which the public are willing to accept in lieu of coin in discharge of debts. I consider the Currency in this country to consist first of coin in circulation; secondly, of Bank of England notes issued against bullion, and of Bank of England notes issued against securities; thirdly, of deposits in the Bank of England, payable on demand, the same as bank notes; fourthly, of notes issued by the country banks; and fifthly, of deposits in country banks in their own notes, which are of the same character as deposits in the Bank of England."

As to the meaning of deposits, and the general confusion as to the way in which they arise, we may refer to the exposition of the Mechanism of Banking given in a former chapter. The witness was further examined at immense length, but the above gives the substance of his opinions.

11. Mr. COBDEN was of opinion that no inflation of the Currency would arise from Bills of Exchange, provided the

money of the country were not previously inflated. There is a great distinction between a Bill of Exchange and a bank note. A Bill of Exchange follows the trading transaction, and is merely a voucher for the transaction, in the shape of a transfer of the debt, or an acknowledgment of the debt; but a bank note put into circulation either in the purchase of public securities or in a loan, or in any other way, goes to the artificial creation of commercial transactions, and is not itself necessarily originated by the transaction. Bills of Exchange can multiply only in proportion to commercial transactions, provided the Currency be kept as a metallic currency.

Mr. Cobden said that, with a metallic Currency, there would be no risk of any great extent of accommodation bills; an opinion which we think is scarcely warranted by the reality.

572. *Mr. Smith*—"Inasmuch as Bills of Exchange are used at Manchester as an instrument of exchange, do they not form part of the Currency?—No; I have defined Currency to be money. I cannot call a Bill of Exchange money. It is a promise to pay money at a certain time, and it is a security only for a certain time, after which all securities are forfeited."

Mr. W. R. WARD (674) considered Currency to be coined gold, silver, and copper, and notes payable on demand, issued by the Bank of England and country banks.

Mr. RICHARD PAGE understood Currency to mean the current money of a country, in which debts are discharged and commodities purchased and sold, and consisting of Bank of England notes and gold and silver. Country bank notes he considered only to be money by courtesy. He included deposits in the Bank of England; but, as he gave to the word "deposit" an inaccurate meaning, we do not know what he would have done if he had understood the real meaning.

12. Mr. GEORGE WARDE NORMAN, a Director of the Bank of England, was asked:—

1691. "Are there any grounds for considering the deposits of the Bank of England as Currency?—No, I think not.

1692. "Do you consider that any deposits, merely in their character of deposits, can be considered as Currency?—No, I do not.

1693. "Will you state what, in your opinion, forms the

distinction between Currency and deposits?—I consider that, looking broadly at deposits and Currency, they are quite distinct; they have little to do with each other. But I conceive that the use of deposits is one of the banking expedients, which is available for economising Currency, along with a great many others. I do not consider them as Currency or money. I ought to observe, perhaps, to the Committee, that I employ the words 'money' and 'currency' as synonymous. Deposits are used by means of transfers made in the books of bankers; and these afford the means of adjusting and settling transactions, and *pro tanto* dispense with a certain quantity of money; or they may be set off against each other, from one banker to another, to a certain extent, and thus produce the same effect. Still they possess the essential qualities of money in a very low degree.

1694. "Do you entertain a similar opinion as to Bills of Exchange?—Yes, exactly; I think they are also used to economise Currency. I look upon them as banking expedients for that purpose; but they do not possess fully the qualities which I consider money to possess.

1695. "Will you explain the difference between the functions which money will perform and those which Bills of Exchange or deposits will perform?—To answer that question fully, one must, I am afraid, take rather a wide view; but I look upon it that the three most essential qualities money should possess are, that it should be in universal demand by everybody, in all times and all places; that it should possess fixed value; and that it should be a perfect numerator. There are other qualities; but I think these are the most essential. Now, when I look at all banking expedients, I find they do not possess these qualities fully. They possess them in a very low degree; and, therefore, as we see took place in the autumn of 1835, with a very large increase of the deposits of the Bank, the circulation diminished, and there are every appearance of the effects of contraction: there was an increased influx of treasure; and I conceive from that there were lower prices. By a numerator I mean that which measures the value of other commodities with the greatest possible facility. If we look at all these banking expedients, we see that they possess the three qualities which I have mentioned in a very much lower degree.

1696. "Will you state in what respect?—I can only take them one by one. A Bill of Exchange is an instrument commonly payable at some future time, at a certain place, and to some particular individual; it is of no use to any other individual, except it is indorsed to him. A man cannot go into a shop with a Bill of Exchange and buy what he wants; he could not pay his labourers with a Bill of Exchange. The same with a banker's deposit, he can do nothing of that sort with that; he can do with less money than he would otherwise employ, if he has Bills of Exchange, or bankers' deposits; but he cannot, with Bills of Exchange or bankers' deposits, do whatever he could with sovereigns and shillings. By a banker's deposit, I mean a credit in a banker's books; nothing more nor less than that."

13. Mr. SAMUEL JONES LOYD, now Lord OVERSTONE, was asked:—

2655. "What is it that you include in the term circulation?—I include in the term circulation, metallic coin, and paper notes promising to pay the metallic coin to bearer on demand. . . .

2661. "In your definition, then, of the word circulation, you do not include deposits?—No, I do not.

2662. "Do you include Bills of Exchange?—No, I do not.

2663. "Why do you not include deposits in your definition of circulation?—To answer that question, I believe I must be allowed to revert to first principles. The precious metals are distributed to the different countries of the world by the operation of particular laws, which have been investigated and are now well recognised. These laws allot to each country a certain portion of the precious metals, which, while other things remain unchanged, remains itself unchanged. The precious metals, converted into coin, constitute the money of each country. That coin circulates sometimes in kind; but, in highly advanced countries, it is represented to a certain extent by paper notes, promising to pay the coin to bearer on demand; these notes being of such a nature in principle that the increase of them supplants coin to an equal amount. Where those notes are in use, the metallic coin, together with those notes, constitute the money or Currency of that country. Now, this money is marked

by certain distinguishing characteristics; first of all, that its amount is determined by the laws which apportion the precious metals to the different countries of the world; secondly, that it is in every country the common measure of the value of all other commodities, the standard, by reference to which the value of every other commodity is ascertained, and every contract fulfilled; and, thirdly, it becomes the common medium of exchange for the adjustment of all transactions equally at all times, between all persons, and in all places. It has, further, the quality of discharging these functions in endless succession. Now, I conceive that neither deposits nor Bills of Exchange, in any way whatever, possess these qualities. In the first place, the amount of them is not determined by the laws which determine the amount of the precious metals in each country; in the second place, they will in no respect serve as a common measure of value, or a standard, by reference to which we can measure the relative value of all other commodities; and, in the next place, they do not possess that power of universal exchangeability which belongs to the money of the country.

2664. "Why do you not include Bills of Exchange in circulation?—I exclude Bills of Exchange for precisely the same reasons that I have stated in my former answer for excluding deposits. There is another passage in the same report which appears to me to shew very clearly that the French Chamber have fully appreciated the distinction between Bills of Exchange and money:—'Every written obligation to pay a sum due may become a sign of the money: the sign has acquired some of the advantages of circulating money; because, like bills of exchange, it may be transmitted by the easy and prompt method of indorsement. But what obstacles there are! It does not represent at every instant to its holder the sum inscribed on it; it can only be paid at a distant time: to realise it at once, it must be parted with. If one finds any one sufficiently trustful to accept it, it can only be transferred by guaranteeing it by indorsement. It is an eventful obligation which one contracts one self, and under the weight of which, until it is paid, one's credit suffers. One is not always disposed to reveal the nature of one's business by the signatures one puts in circulation. These inconveniences led people to find out a sign of money still more active and more convenient, which shares, like the Bill of Exchange, the qualities of metallic

money, because it has no other merit but to represent it, but which can procure it at any moment; which, like the piece of money, is transferred from hand to hand, without the necessity of being guaranteed, without leaving traces of its passage. The note payable to bearer on demand, issued by powerful associations formed under the authority and acting under the continual observation of government, has appeared to present these advantages. Hence Banks of circulation.'

2665. "Under similar circumstances, will the aggregate amount credited to depositors in bankers' books bear some relation to the quantity of money in the country?—During temporary fluctuations in the amount of circulation, all other things remaining unchanged, I conceive the amount of deposits will be affected by such fluctuations.

2666. "Is the amount of bills of exchange dependent in some degree on the quantity of money?—I apprehend that it is dependent in a very great degree. I consider the money of the country to be the foundation, and the bills of exchange to be the superstructure, raised upon it. I conceive that bills of exchange are an important form of banking operations, and the circulation of the country is the money in which these operations are to be adjusted; any contraction of the circulation of the country will, of course, act upon credit; bills of exchange, being an important form of credit, will feel the effect of that contraction in a very powerful degree; they will, in fact, be contracted in a much greater degree than the paper circulation.

2667. *Sir Robert Peel*—"What are the elements which constitute money in the sense in which you use the expression 'quantity of money?' What is the exact meaning you attach to the words 'quantity of money—quantity of metallic Currency?'—When I use the words quantity of money, I mean the quantity of metallic coin and of paper notes, promising to pay the coin on demand, which are in circulation in this country.

2668. "Paper notes payable by coin?—Yes.

2669. "By whomsoever issued?—Yes.

2670. "By country banks as well as other banks?—Yes.

2671. *Chairman*—"Would this superstructure, consisting of sums credited to depositors in bankers' books and bills of exchange, equally exist, although no notes payable in coin on

demand existed in the country?—Yes; I apprehend that every question with respect to deposits, and with respect to bills of exchange, is totally distinct from the question which has reference to the nature of the process of substituting promissory notes in lieu of coin, and of the laws by which that process ought to be governed. If the promissory notes be properly regulated, so as to be at all times of the amount which the coin would have been, deposits and bills of exchange, whatever changes they may undergo, would sustain those changes equally, either with a metallic Currency, or with a paper Currency properly regulated; consequently, every investigation respecting their character or amount, is a distinct question from that which has reference only to the substitution of the paper notes for coin.

2672. "There would be no reason why, if there were no notes payable in coin on demand, the amount of this superstructure should be less than it now is, with a mixed circulation of specie and of notes payable on demand?—None whatever. I apprehend that, upon the supposition that the paper notes are kept of the same amount of the metallic money, the question of the superstructure, whether of deposits or of bills of exchange, remains precisely the same.

2673. "That answer takes for granted that, in the first case, the metallic Currency, and, in the second case, the metallic Currency, plus the notes payable on demand, are the same in quantity?—Yes.

2674. *Sir Robert Peel*—"You suppose the notes payable on demand to displace an amount of coin precisely equal to those notes?—They ought to do so under a proper regulation of the paper money, otherwise they are not kept at the same value as coin.

2675. *Mr. Attwood*—"Would you consider that the superstructure of bills of exchange, founded entirely upon a metallic Currency, might, at particular times, become unduly expanded?—The answer to that question depends entirely upon the precise meaning of the word 'unduly.' I apprehend, undoubtedly, that it is perfectly possible that credit, and the consequences which sometimes result from credit, viz., over-banking in all its forms, and the over-issue of bills of exchange, which is one important form of over-banking, may arise with a purely metallic Currency;

and it may also arise with a Currency consisting jointly of metallic money and paper notes promising to pay in coin; and I conceive, further, that if the notes be properly regulated, that is, if they be kept at the amount which the coin otherwise would be, whatever over-banking would have arisen with a metallic Currency, would arise, and to the same extent, neither more or less, with money consisting of metallic coin and paper notes jointly.

2676. "May not over-banking and over-issue of bills of exchange, forming a superstructure based upon money composed of metal and paper notes, derange the certainty of the notes being duly paid in gold?—I apprehend that if the paper notes be properly regulated, according to the sense which I have already attributed to that expression, and if a proper proportion of gold be held in reserve, the solidity of the basis cannot be disturbed; that is, that if there be a proper contraction of the paper notes as gold goes out, the convertibility of the paper system will be effectually preserved by the continually increasing value of the remaining quantity of the Currency, as the contraction proceeds."

About this period, and for a long time preceding, the greatest part of the Circulating Medium of Lancashire were bills of exchange, which sometimes had 150 indorsements on them before they came to maturity. Lord Overstone was asked :—

3026. "Does not the principal circulation of Lancashire consist of bills of exchange?—As I contend that bills of exchange do not form a part of the circulation, of course, I am bound, in answer to that question, to say no.

3027. "Is there not a large quantity of bills of exchange in circulation in Lancashire?—Undoubtedly, wherever a large mass of mercantile or trading transactions take place, there will exist a large amount of bills of exchange; and that is the case, to a great extent, in Lancashire.

3028. "Do not the bills exceed to an immense amount the issue of notes payable on demand in Lancashire?—Undoubtedly they do, to a great amount."

14. Mr. Hume had a long fencing match with Lord Overstone as to the distinction between Bank Notes and Deposits. Lord Overstone admitted that a debt might be discharged either by

the transfer of a Bank Note, or by the transfer of a Credit in the books of the Bank: but he strongly contended that Bank Notes are money, and that Bank Credits, or Deposits, are not.

3148. "Do you consider any portion of the deposits in the Bank of England as money?—I do not. . . . . .

3150. "Could 20,000 sovereigns have more completely discharged the obligation to pay the £20,000 of bills than the deposits did?—Where two parties have each an account with a deposit bank, a transfer of the credit from one party to the credit of another party, may certainly discharge an obligation in the same manner, and to the same extent to which sovereigns would have discharged that obligation. . . . . .

3169. "Will not the debt between the two be discharged thereby?—Yes.

3170. "In the one case I have supposed that payment of £1,000 was made by means of notes in circulation; payment was made by the delivery of these notes from one hand to another, and they are transported from place to place: but in the case of a payment made by means of a transfer in the books of the Bank from one account to another, I ask you, are not those payments equally valid, and would not the debt be discharged equally in either case?—In the one case the debt has been discharged by the use of money: in the other case the debt has been discharged without the necessity of resorting to the use of money, in consequence of the economising process of deposit business in the Bank of England.

3171. "Can the debt of £1,000 which one person owes to another be discharged, without money being paid, or its value?—A debt of £1,000 cannot be discharged without, in some way or other transferring the value of £1,000; but that transfer of value may certainly be effected without the use of money.

3172. "Was not the deposit transfer in the Bank of England, to satisfy that debt of £1,000 of the same value as the £1,000 notes which passed in the other case?—A credit in the Bank of England I consider is of the same value as the same nominal amount of money; and if the credit be transferred, the same value I consider to be transferred as if money of that nominal amount had been transferred. . . . . .

3177. "Is there any fallacy in the statement that in the accounts published by the Bank, their liabilities are divided into two heads, circulation and deposit?—I am not prepared to state that there is any fallacy in it.

3178. "Have you not said that deposits do not in any way whatever possess the qualities of money?—If I have said so, I shall be glad to have the statement laid before me.

3179. "Have you not, in question 2663, enumerated certain distinguishing characteristics of money?—I have.

3180. "Have you not in the same question stated that deposits do not, in any way whatever, possess those characteristics?—Yes, I have.

3181. "Have you not, in answer to previous questions, admitted, that for the discharge of debts, deposits have the characteristics of money?—All that I have admitted is, I believe, that a deposit may, under certain supposed circumstances, be used to discharge a certain supposed debt."

Lord Overstone also said (3132)—"Will any man in his common senses pretend to say that the total amount of transactions adjusted at the Clearing House are part of the money, or circulating medium of the country?" Now, of course, no one says that a *transaction* is money; but the operations of the Clearing House consist exclusively of the transfers of Bank Credits from one bank to another; and most undoubtedly these Bank Credits are part of the circulating medium of the country.

Now we have already seen that in Roman Law these Rights are expressly classed as *Pecunia;* we have seen, that both by our Courts of Law and Equity, they are held to be equivalent to Money; and Lord Overstone has himself admitted that they are of the same nominal value as money. How, then, can it be contrary to common sense to say that they are part of the circulating medium of the country? However, to avoid all such discussions, every one must admit that they have now become, in consequence of the general spread of the use of banking, the great medium of the payment of the country. And, therefore, those who consider the essence of money to be "closing debt," must admit them to be money. Thus they are answered by their own arguments; which are, however, erroneous, because money is not that which may happen to close a debt, but that which a debtor

can by law compel his creditor to take in payment of a debt.

Lord Overstone further said (3082)—"When I give a definition of "Currency," of course it is Currency in the abstract: it is that which Currency ought to be: that definition properly laid down and properly applied, will include paper notes payable on demand, and it will exclude bills of exchange."

Here again Lord Overstone is absolutely wrong. It will be seen from the judicial decisions given above, that it is perfectly impossible to frame a true definition of Currency which shall include bank notes and exclude bills of exchange: and, moreover, no bank notes in England, except Bank of England notes, are money; because no debtor can compel his creditor to take any Bank Notes in payment of a debt, except Bank of England Notes, and these only so long as the Bank pays them in money on demand. If the Bank were to stop payment, Bank of England Notes would immediately cease to be legal tender: a consideration which will be found of the greatest importance when we come to investigate the mechanism and operation of the Bank Charter Act of 1844.

15. Mr. TOOKE was asked—"In using the term 'circulation' of the Bank of England, what do you include in that term?—I include in that term only the Bank notes in the hands of the public. In order to avoid confusion, perhaps the Committee would allow me to state the meaning which I attach to the different terms 'Currency' and 'Circulating Medium.' The Currency I consider to be, in strictness of language, according to the apparent derivation of the term, that part of the circulating medium, such as the coin of the realm, and Bank of England notes and country bank notes (although not a legal tender), which pass current from hand to hand, without individual signature, such as appears on drafts or indorsements. I am doubtful whether cheques on bankers might not be included, from their perfect similarity to bank notes, in many of the purposes for which they are employed; at the same time, there is the feature of distinction which I have mentioned, viz., that cheques require the signature of the party passing the draft, and that they do not pass from hand to hand. Bills of exchange I consider as a part of the general means of distributing the

productions and revenues of the country, and, therefore, as constituting a part of the circulating medium. I consider, also, that the simple credits by which goods are, in many instances, bought and sold, come likewise under the general description of the circulating medium, in as far as the prices of commodities are in question: because a simple contract of sale, whether any payment eventually passes or not, is commonly entered in the price currents without distinctions from those for which any actual payment is made. I cannot consider that transferable debts constitute circulating medium, but only the actual transfers.

3279. "What do you mean by transferable debts?—The deposits in the hands of bankers, against which the depositors are entitled to pass their drafts.

3280. *Mr. Grote*—"You include, not simply transfers of deposits in the hands of the Bank of England, but also transfers of deposits in the hands of other bankers?—Yes; transfers of deposits generally.

3281. *Chairman*—"Do you then consider a deposit to be a transferable debt owing by the banker to the depositor?—Yes.

3282. "In the use of the term 'Currency' in your future examination, do you propose, in addition to coin, Bank of England notes, and country bank notes, to include cheques upon bankers?—Yes; I think upon the whole the distinction I have mentioned is not sufficient to exclude them, and, therefore, I shall propose to consider them as included.

3283. "*Mr. Warburton*—"By cheques, you mean cheques actually drawn, and passing from one person to another?—Yes; that which is current, in fact.

3284. "Will you be good enough to state what you propose to include in the word 'circulation' in the course of your future examination?—I propose to include in the term 'circulation' the notes of the Bank of England, and of country banks, payable on demand.

3285. "What do you mean by 'circulating medium'?—I mean all instruments of interchange by which the productions and the revenue of the country are distributed; everything which serves and is received as a mode of payment, or which constitutes nominal money-price which appears in price currents.

3286. *Mr. Grote*—"There is the Currency, and there are

also certain expedients for economising the use of the Currency; you would call both one and the other of those portions of the circulating medium?—Precisely.

3287. "Do you include, in the word 'Currency,' bills of exchange?—No.

3288. "If you include, in the term 'Currency,' a crossed cheque, payable at a banker's, to be presented, therefore, at the Clearing House, and having, therefore, before presentation not more than seven or eight hours to run, why is it that you do not include in the term 'Currency' a bill of exchange payable also at a banker's, falling due to-morrow, and having, probably, not more than about 24 hours to run?—It is only a question of the general acceptation of the term; there is no essential distinction in the particular case. I may, perhaps, be allowed to say, that the only question as to the employment of different descriptions of circulating medium is referable to the combined considerations of economy, convenience, and security.

3289. "If the cheque, according to the supposition in the former question, be included in the term 'Currency,' will not a bill of exchange, due to-day, payable at a banker's, be entitled also to be included in that term?—It is only a question of convenience in the classification; I am not aware that it is of any importance in practiaal operation.

3290. "Bills of Exchange having, previous to maturity, one, two, three, four, or more days to run, differ in character by insensible degrees from a crossed cheque, a crossed cheque being that bill which has the shortest time to run?—They differ in character by insensible degrees, and likewise in the trifling difference of convenience from their not being used till maturity, unless under a calculation of discount.

Mr. Tooke then started a theory which, like many others, is true in some cases, and which, we believe, he was the first to notice; but which he pushed to an extreme, which drew out some just strictures from Colonel Torrens.

3292. *Mr. Hume*—"Will you state what part of the Currency, or circulating medium, affects prices, under the definitions which you have now given?—No one part of them affects the prices of commodities more than any of the other parts.

3293. *Mr. Grote*—"Do you mean not more in degree, or not in any different way?—Not more in degree.

3294. "You mean that every portion of that which you have described under the name 'circulating medium' is perfectly equal to every other portion in the effect which it produces upon prices?—Perfectly so.

3295. *Mr. Hume*—"Do you mean that every transaction of purchase or sale by any of the means which you have mentioned, as included in the circulating medium, equally affects prices?—Yes; and that was my reason for caring so little about making a distinction among them. I doubt whether they operate upon prices at all.

3296. *Mr. Grote*—"You mean that none of these items which you have enumerated under the general term 'circulating medium' have in your opinion any effect upon prices?—Yes; I mean that they are not operative causes of prices.

3297. *Mr. Hume*—"What is it, then, which does affect prices? —The cost of production limiting the supply on the one hand, and the pecuniary means of the consumer limiting the demand on the other.

3298. "Will not the variations in the quantity of the circulating medium affect prices?—No.

3299. "Will it not, if abundant, be more at the disposal of individuals for purchases than when it is scarce?—It will be more easily disposable, but it will not be necessarily so disposed of. I believe that the amount of the circulating medium is the effect, and not the cause, of variations in prices."

16. Lastly, we may quote Colonel Torrens, because he was not only one of the most influential of this school, but it was sometimes alleged that he was in reality the author of the scheme which Sir Robert Peel adopted in his Bank Charter Act of 1844. He says[1]—"The terms money and Currency have hitherto been employed to denote those instruments of exchange which possess intrinsic or derivative value, and by which, from *law or custom*, debts are discharged and transactions finally closed. Bank Notes, payable in specie on demand, have been included under these terms as well as coin, because, by law and custom, the acceptance of the notes of a solvent bank, no less than the acceptance of coin, liquidates debts and closes transactions; while bills of

[1] *The Principles and Practical Operation of Sir Robert Peel's Act of* 1844 *explained and defended, p.* 79.

exchange, bank credits, cheques, and other instruments by which the use of money is economised, have not been included under the terms money and Currency, because the acceptance of such instruments does not liquidate debts and finally close transactions."

Again he says, in reply to some perfectly just observations of Mr. Fullarton—"It is an obvious departure from ordinary language to say that whether a purchase is effected by a payment in bank notes, or by a bill of exchange, the result is the same. According to the meaning of the term, Money and Credit, as established by the universal usage of the market, a purchase effected by a payment in bank notes is a ready money purchase, while a transaction negotiates by the payment of a bill of exchange is a purchase upon credit. In the former case the transaction is concluded, and the vendor has no further claim upon the purchaser; in the latter case the transaction is not concluded, and the vendor continues to have a claim upon the purchaser until a further payment has been made in satisfaction of the bill of exchange. A bank note liquidates a debt, a bill of exchange records the existence of a debt, and promises liquidation a future day. Mr. Fullarton not only inverts language but misstates facts, when he says that the transactions of which bank notes have been the instruments must remain incomplete until the notes shall be returned upon the issuing bank, or discharged in cash. A bank note for £100 may pass from purchasers to vendors many times a day, finally closing on the instant, each successive transaction. A bill of exchange may also pass from purchasers to vendors many times a day, but no one of the successive transactions of which it is the medium can be finally closed until the last recipient has received *in coin or in bank notes the amount it represents.*

"Now it is the necessity of ultimate re-payment which constitutes the main point of distinction, which marks the boundary between forms of credit and money. It is a necessity which applies to bills of exchange and cheques, but which does not apply to bank notes; and, therefore, upon Mr. Fullarton's own shewing, upon his own definitions and his own conditions, as to what constitutes money, bank notes come under the head of money: while bills of exchange and bankers' cheques, and such other instruments as require ultimate payments, transfers, and

settlements, do not come under the phrase money. . . . Upon Mr. Fullarton's own shewing money consists of those instruments only by which debts are discharged, balances adjusted, and transactions finally closed: and, therefore, Mr. Fullarton, unless he should choose to continue to contradict himself, must admit that bank notes are, and that bills of exchange, cash credits, and cheques are not money."

17. We have now given sufficient extracts to shew the chaos of conflicting and contradictory opinions which prevailed. Not a single witness had the remotest idea of the true legal meaning of the word Currency. And we must now point out the necessary logical consequences to which the doctrines of these persons lead.

Mr. NORMAN said that money, or Currency, should possess fixed value, and be a perfect numerator. But how can money, or any thing, possess fixed value, when its value is changing from hour to hour?—An instrument of credit may preserve an equality of value with respect to money, but not with respect to anything else, unless it is expressed to be payable in it. He said that he meant by a numerator that which measured the value of other commodities with the greatest facility. Why does a promise to pay £50 measure the value of things with less facility than £50 itself?

It is not a little amusing to find the celebrated phrase of the Roman Catholic Church—*Quod semper, quod ubique, quod ab omnibus*, starting up and meeting us in a discussion on Currency. In Lord Overstone's opinion money and Currency are identical, and include the coined metallic money, and the paper notes promising to pay the bearer coin on demand; and, he says, that the characteristic of their being money is, that they are received equally at "*all times, between all persons, and in all places.*" For the sake of shortness, let us designate this phrase by 3A, from the three alls in it. He excludes Bills of Exchange from the designation of Currency, because "they do not possess that power of universal exchangeability which belongs to the money of the country." This definition is fatal to Lord Overstone's own view. In fact, if it be true, there is no such thing as money or Currency at all. In the first place, it at once excludes the whole of bank notes. The notes of a bank in the remote

district of Cumberland, would not be current in Cornwall; *therefore* they are not 3A; *therefore* they are not Currency. Again, the notes of a bank in Cornwall would not be current in Cumberland; therefore they are not Currency. Similarly there are no country bank notes which have a general Currency throughout England; therefore no country bank notes are 3A; *therefore* no country bank notes are Currency. Till within the last fifty years or so, Bank of England notes had scarcely any Currency beyond London and Lancashire; in country districts a preference was universally given to local notes; *therefore* Bank of England notes were not 3A; they had not a power of "universal exchangeability;" *therefore* they were not Currency. Bank of England notes would, even now, not pass throughout the greater part of Scotland. If, therefore, the test of 3A and "universal exchangeability" be applied, the claims of all bank notes to be considered as Currency are annihilated at once. The acceptance of a Baring, or a Rothschild, would be received in payment of a debt by a far larger circle of persons than the notes of an obscure and remote country bank.

But the universality of Lord Overstone's assertion is fatal to his argument in other ways. On the Continent, silver is the legal standard of value; in England, silver, like copper, is merely coined into small tokens, called shillings, &c., which are made to pass current above their natural value, and are only legal tender for a very trifling amount, hence it cannot be used in the adjustment of *all* transactions; therefore it is not 3A; therefore it is not Currency. There are other countries where gold is not a legal tender, therefore it fails to satisfy Lord Overstone's test, therefore it is not Currency. If, then, the test proposed by Lord Overstone be considered as correct, it is easy to see that there is no substance or material whatever that will not fail under it; and, therefore, *there is no such thing as Currency.*

The fact is, that the only difference between a Bill of Exchange and a Bank Note is, that the former is a promise of a deferred payment, and the latter that of an immediate one, and there is less risk in taking the latter than the former. From these circumstances, a Bank Note possesses a greater *degree* of circulating power than a Bill of Exchange. But, in the Midland Counties of England, it used to be quite common for the banks to issue the Bills of Exchange they had discounted with their own

indorsement upon them. In which respect they were in every way equivalent to Bank Notes; moreover, there is not the same inducement to put a bill into circulation as a Bank Note, because the former increases in value as the day of payment approaches, and it is unprofitable to keep a note idle. But it is to the last degree unphilosophical to maintain that these two obligations are of different *natures*, because they are adapted to circulate in different *degrees*.

18. Every commercial lawyer would at once perceive the fundamental fallacy of the reasons why Colonel Torrens and others maintain that Bank Notes are Currency, and that Cheques and Bills of Exchange are not. They suppose that bank notes pass without indorsement, and that bills of exchange do not. Even if that were true, it would not be any valid ground for the distinction, because such a thing would in no way affects the nature of the instrument. It is wholly untrue to suppose that bank notes and money are the only things which close transactions. By the table given above[1] it is seen that upwards of 95 per cent. of commercial payments and receipts were made by Messrs. Morrison and Co. in instruments of credit, other than bank notes.

But it is a very great mistake to say that bank notes pass without indorsement and bills of exchange do not. At the time the Bank of England was founded, it was supposed to be illegal for any such thing as promissory notes to pass by assignment. The negotiability of bank notes had to be provided for by the Act. It was enacted, that all the Bank's bills obligatory and of credit, made or given to any person, might, *by indorsement of such person*, be freely assigned to any person who should voluntarily accept them, and so by such assignees *toties quoties* by indorsement thereon, and all such assignees might sue thereon in their own names.

The assignment of the Goldsmiths' notes, or the private bankers' notes, was held to be illegal much later than this. In 1703 it was decided that no promissory notes were assignable or indorsable over within the custom of merchants. In 1704, the Act was passed which allowed promissory notes to be assigned by indorsement like Bills of Exchange. It is true that the

[1] *Ch.* 7, *Sec.* 1, § 26.

custom of indorsing Bank of England Notes, and, it is probable, country bank notes too, soon fell into disuse, but that makes no difference in the *law* of the subject.

It is also an error to suppose that Bills of Exchange require an indorsement at each transfer. A Bill of Exchange may be made payable to bearer, and then it requires no indorsement at all. Bills, however, are generally drawn payable to order, and then they require that the payee should indorse them; but he may do that without making himself liable on them, as is done in many cases. After the first indorsement in blank, the Bill is payable to bearer, and may be passed by mere delivery, in all respects like a Bank Note. "I see no difference," said Lord Mansfield, "between a note indorsed in blank, and one payable to bearer." "And," says Mr. Justice Byles,[1] "a transfer by mere delivery, without indorsement, of a Bill of Exchange, or Promissory Note, made or become payable to bearer, does not render the transferor liable *on the instrument* to the transferee.

"And it is conceived to be the general rule of the English law, and the fair result of the English authorities, that the transferor is not even liable to refund the consideration, if the bill or note so transferred by delivery, without indorsement, turns out to be of no value by reason of the failure of the other parties to it. For the sending to market of a bill or note payable to bearer without indorsing it, is *primâ facie* a sale of the bill. And there is no implied guarantee for the solvency of the maker, or of any other party.

"If a bill, or note, made or became payable to bearer, be delivered without indorsement, not in payment of a pre-existing debt, but by way of exchange for goods, for other bills or notes, or for money transferred to the party delivering the bill at the same time, such a transaction has been repeatedly held to be a sale of the bill by the party transferring it, and a purchase of the instrument, with all risks, by the transferee. 'It is extremely clear,' said Lord Kenyon, 'that if the holder of a bill sent it to market without indorsing his name upon it, neither morality, nor the law of this country, will compel him to refund the money for which he sold it, if he did not know at the time that it was not a good bill.' So, when A. gave a bankrupt, before his bankruptcy, cash for a bill, but refused to allow the bankrupt to

[1] *A Treatise on the Law of Bills of Exchange, &c., 8th, Edit., p.* 146.

indorse it, thinking it better without his name, and afterwards, on dishonour of the bill, proved the amount under the commission, the Lord Chancellor ordered the debt to be expunged, observing, that this was a sale of the bill. So, if a party discounts bills with a banker, and receives, in part of the discount, other bills, but not indorsed by the banker, which bills turn out to be bad, the banker is not liable. 'Having taken them without indorsement,' says Lord Kenyon, 'he has taken the risk on himself. The bankers were the holders of the bills, and, by not indorsing them, have refused to pledge their credit to their validity; and the transferee must be taken to have received them on their own credit only.' So where, in the morning, A. sold B. a quantity of corn, and, at three o'clock in the afternoon of the same day, B. delivered to A., in payment, certain promissory notes of the Bank of C., which had then stopped payment, but which circumstance was not at the time known to either party, Bayley, J., said, 'If the notes had been given to A. at the time when the corn was sold, he could have no remedy upon them against B. A. might have insisted on payment in money, but, if he consented to receive the notes as money, they would have been taken by him at his peril.' Such seems the general rule governing the transfer by delivery, not only of ordinary Bills of Exchange and Promissory Notes, but also of Bank Notes. Nor is there any hardship in such a rule, for the remedy against the transferor may always be preserved by indorsement, or by special contract."

While it has always been acknowledged that the delivery of a bill without indorsement, in exchange for a valuable consideration, is a sale of it, it has frequently been said that, if the bill be indorsed, it is only a loan. We have pointed out the ambiguity of the word *loan* already. It is often said that a banker lends his customer money on the security of bills. But this is an inaccurate mode of statement. What the banker does is to buy a debt due to his customer, and, when he indorses the bill, his customer gives him a limited warranty of its soundness. If the banker lent his customer the money, it would be his duty to repay it. But that is not so. It is the acceptor's business to pay the bill, and, if he do not do so, the banker may, by giving his customer immediate notice, and making a demand, make his customer take back the bill, and repay the money. But

if the banker fail in giving immediate notice, his remedy against his customer is gone.

But the *Law of Continuity* shews the fallacy of the doctrine that Bank Notes payable to bearer on demand alone are Currency. Lord Overstone rigorously restricts the term to such notes. But would not notes payable one minute after demand be Currency? or one hour? or two, or three, or four hours? Would not notes payable one day after demand be Currency? or two or three days? Lord Overstone denied that Bank post bills, which are issued payable seven days after sight, are Currency. According to this doctrine, if a man deposits money in the Bank and receives in exchange for it a bank note payable on demand—that is Currency; but if he ask, for his own convenience, for a note payable seven days after sight—that is not Currency! But the note becomes payable on demand on the seventh day after sight, and then, by their own definition, it is Currency. What was it before? It used formerly to be the custom for banks in the country to issue notes payable 20 days after demand. These notes circulated and produced all the effects of money. What were they, if they were not Currency? Cheques are payable on demand. How are they not Currency as much as notes? How are Bills of Exchange not Currency on the day they become payable? And, if they are so then, what were they before? It is quite plain that there can be but one answer. They are all species of Currency, though differing in degree, and the distinction between them is untenable.

Nay, according to this doctrine a Bank Note itself is only Currency during about six hours out of the twenty-four: because it is only payable *on demand* during banking hours, say from 9 a.m. to 3 p.m. As soon as the clock strikes three the Note is not payable till next day; and, consequently, it is not Currency, and has ceased to affect the foreign exchanges. Therefore, at 5 minutes before three it is Currency, and 5 minutes after three it is not Currency. So at 5 minutes before nine a.m. it is not Currency, at 5 minutes after nine it is Currency. We must leave our readers to judge whether such doctrines are sound philosophy.

Not only are Colonel Torrens's statements of law perfectly inaccurate, but also his statements of fact and the routine of business. He asserts that Bills of Exchange are not Currency

because they are intended to be, and are, ultimately liquidated in coin or bank notes. Such a statement as this shews the most profound ignorance of the ordinary routine business of banking; for comparatively very few bills are ever paid by means of coin or bank notes; in modern times they are almost universally paid by means of Bank Credits: and, consequently, by Colonel Torrens's own definition, these Bank Credits must be money.

19. But we must point out the further conclusions which the doctrines set forth by these witnesses lead to, which may somewhat surprise their advocates.

They say that the fundamental essence of Currency or Money is that it "closes a debt."

Now to this we shall reply as was the fashion in the glorious old days of special pleading—(1) there is no debt to close; and (2) it does *not* close the debt.

1. When money is exchanged for goods no debt arises: and if it be said that the money closes the debt which would have arisen on the sale of the goods, it is perfectly obvious that it may equally be said that the goods close the debt which would have arisen on the sale of the money. It is simply an exchange; and the goods and the money close the debt equally on each side. Therefore, if it be the essence of Currency to "close debt," the goods are Currency for precisely the same reason that the money is.

It is quite common in the City to discharge a debt by stock: now by this the debt is closed, and, consequently, according to this doctrine, the Stock is Currency or Money.

So in innumerable cases it is the custom to discharge a debt by a payment of goods. A baker or a tea merchant becomes indebted to a wine merchant, and for the sake of convenience he may take payment in bread or tea. If he does so, then the debt if closed; and by this doctrine the bread or the tea are Currency or Money.

So in all cases of Barter or Exchange of goods, the goods on each side discharge or close the debt which would have arisen without the exchange; consequently, the goods exchanged on either side are equally Currency or Money.

Furthermore, let us test the doctrine by cases regarding other paper documents.

A merchant, suppose, puts his acceptance into circulation:

another person happens to be indebted to him in an equal amount, and chances to come possessed of his acceptance. The merchant asks for payment of his debt, and the debtor hands over to the merchant his own acceptance. By this means the debt is closed; and according to this doctrine the merchant's acceptance is Currency or Money.

So a banker, say, issues notes, and discounts a merchant's acceptance. When the acceptance falls due, the merchant collects an equal amount of the banker's notes. Each is then equally indebted to the other; and in payment of their reciprocal claims, the merchant hands the notes to the banker, and the banker hands the acceptance to the merchant. By this means the debts are mutually closed, and if the Notes are Currency because they have closed the debt; is it not manifest that the acceptance is equally Currency, because it has performed exactly the same function?

So if two merchants issue their acceptances for the same amount, and they get into each other's hands, each will offer to the other his own acceptance in payment of the debt by him. By these means the debts are mutually closed. And consequently each acceptance is Currency or Money.

Thus we see that the dogmas of these writers are transfixed by darts drawn from their own quiver!

The same doctrine may be extended to other cases. Suppose a man buys a ticket from a Railway Company, the Company is then indebted to him. But when they have carried him to his journey's end, the debt is closed. Therefore, according to this doctrine, the carriage of the passenger is Currency or Money.

So if a person buys an opera ticket, the manager of the theatre is indebted to him. But when he has witnessed the play, the debt is closed; consequently the performance of the play is Currency or Money.

So if a person buys Postage Stamps, the Post Office is indebted to him: but when he has sent his letters by post, the debt is closed. Therefore the carriage of the letters is Currency or Money. And so on, the same principle may be applied to many other cases.

2. In the next place, we affirm that a payment in Money does *not* close the debt, because all Economists have shewn that

the transaction is *not* closed until some product or satisfaction has been obtained in exchange for the one originally given. The earliest Economists pointed out that in a sale for money the exchange is *not* consummated.

A baker, we will say, wants shoes: he sells his bread for money; but can he wear his money as shoes? Certainly not; he must exchange away his money for shoes. Consequently, the Physiocrates held that the exchange was not consummated, or completed, until the baker had got his shoes. And J. B. Say called a sale, a demi-exchange.

And it is precisely for this reason that all Economists from Aristotle downwards, have perceived and declared that money itself is only a species of Credit, or general Bill of Exchange, as we have shewn by a whole catena of writers. Hence, money and bills of exchange are fundamentally analogous; they are each of them merely the evidence of a debt due to their possessor; and the payment of a bill of exchange in money is only the exchange of a particular and precarious instrument of Credit, for a general and permanent one. But, as Economists, we have nothing to do with satisfaction and enjoyment; we have only to do with *exchanges;* and the exchange of goods for a bill or note is one exchange; the exchange of a bill or note for money is another exchange; and the exchange of money for goods is another exchange; they are all equally exchanges, and therefore Economic phenomena.

20. We are happy to say that on this subject M. Michel Chevalier is entirely of the same opinion as ourselves. After shewing[1] the untenable nature of the distinction set up between Bank Notes and Bills of Exchange, he says—"The English language has a generic word which comprehends money, bank notes, paper money, or assignats not convertible into specie, and every other kind of security which can be put into circulation, and is accepted more or less generally among men: and that is the word CURRENCY. Our language has no precise equivalent: nevertheless, the word *Numéraire* may be taken in the same sense, and I shall so employ it for the future in this work." And the same distinguished writer has given his formal adhesion to the fundamental nature of a Currency set forth in this work.[2]

[1] *La Monnaie*, § 3, *ch.* 5. [2] *Journal des Economistes, August*, 1862.

But, while we contend that Lord Overstone's criterion of a Currency is fatal to his own view, we are quite willing to accept it. For what is it that exists in all places, in all times, and among almost all persons? DEBT, or SERVICES DUE. And what is it that is universally required to measure, record, and transfer them? *Some material.* But we see that all Currencies are more or less local, none are universal. The idea, or the want alone, is universal. The notes of a country banker, only circulating in his own neighbourhood, are like a country *patois*, each district has its own. A national Currency rises to the dignity of a language. But even that is only local, on a larger scale. The ideas only expressed in the language are universal. We are, therefore, strengthened in our conviction, that the only true idea of a Currency is, that it is the *Representative of Transferable Debt*, and that *whatever represents Transferable Debt is Currency.*

CHAPTER XVIII.

ON THE ORGANISATION OF THE BANK OF ENGLAND; AND ON THE BANK CHARTER ACT OF 1844.

1. We are now, at length, in a position to take a comprehensive survey of the organisation of the Bank of England, and of the Bank Act of 1844. Of all the Acts in the Statute book, there is none which comes home to every man, which so nearly affects every man's interest, as this Act. Few persons are aware of its extremely complicated nature. We hear sometimes of *the principle* of the Act of 1844, as if there were but one principle involved in it! or as if the *object* of it were the same thing as the *principle;* the object it aims at, the same thing as the theory it adopts to obtain that object. Whereas, in truth, it is founded upon a multiplicity of theories—it is a combination of several theories of currency, and, moreover, devises a particular machinery for carrying them out. When, therefore, we consider its very complicated nature, we see what a boundless field of controversy it may give rise to; for each of the several theories it embodies may be partially or totally erroneous; and even if they be correct, the machinery devised for enforcing them may be imperfect, or erroneous, and insufficient for its purpose. We think, however, that we are now in a position to examine the theories upon which it is founded—to test them by the fundamental principles of monetary science established in the preceding chapters, and to point out those principles—if any—which it violates.

In the first chapter we obtained the great fundamental conception, which is the basis of monetary science, that money is the representative of debt, or services due; *that, where there is no debt, there can be no money.* In the preceding chapter we found that the fundamental error of Law's Theory of Paper Money is, that it creates currency where there is no debt for it to represent. The consequence of which is, that an additional quantity of material is poured into the channel of circulation, as

it is called; that is, a greater quantity of material is required to do exactly the same duty as a smaller quantity did before; the consequence of which is a depreciation of the whole, which may proceed to any length; and we have given several examples of the practical results of this plausible and wide-spread, but delusive, theory.

We must now examine the organisation of the Bank of England, and we shall find that it, too, is based upon Lawism.

But furthermore, we have said that the Bank Act of 1844 is based on a peculiar definition of the word CURRENCY; and is expressly devised for the purpose of carrying into effect a peculiar Theory of Currency. In the last chapter we have examined the meaning of the word CURRENCY, and shewn the entirely erroneous doctrines of those writers from whom the scheme emanated which was embodied in that Act. We have now to examine the THEORY upon which it is founded; and to see how far it really carries out the THEORY it is intended to do; and the consequences it has produced. We may say a few words regarding the origin of the Principle which we are now going to explain.

2. We have shewn that the Roman lawyers had brought the Theory of Credit to absolute perfection; but it is somewhat strange that so practical a people never appreciated the convenience of recording Credit or Debts on written instruments till a very late period. Although debts were permitted to be freely sold like any other article of property, it was necessary for the Creditor, the Debtor, and the Assignee to meet together and agree orally to the transfer of the debt. The only written documents of debt which the Romans used were cheques; there is no trace of their having invented bank notes.

Bank notes were invented by the Chinese. About 807 A.D., in the reign of Hian-tsoung of the dynasty of Thang, there was a great scarcity in the country, owing to political troubles and their usual concomitant, a debasement of the coinage. The Emperor ordered all the merchants to bring their specie to the Treasury; and in exchange for it gave them Bills of Exchange or Notes, called *fey-tsien*, or flying money, payable at the principal towns of the provinces. The convenience of these bills was so great that their use became very popular; but for some reason or another they were discontinued for a time. In 970 A.D., however,

in the reign of Tai-tson, there was again great monetary disorder, and the expedient of the *fey-tsien* was revived.. Merchants were invited to deposit their specie in the Imperial Treasury, and they received bills or notes payable in the principal towns of the Empire. These were called *pien-tsien*, or convenient money. The plan was received with the greatest favour; the specie flowed in, and the issues of paper greatly increased. Similar banks were established in the provinces, and soon became very large. The *pien-tsien* were made legal tender in commerce. In 997, the Government had received in deposit 1,700,000 taels of silver. In 1021 the sum had increased to 2,830,000 taels, equal to about 21,225,000 francs.

These issues were made by the Government, and we see that they were merely in exchange for an equal amount of bullion. This was, therefore, an example of the "CURRENCY PRINCIPLE."

But, about the same time, the first issue of private circulating paper took place. A certain Tchang-yang seems to have been the inventor of this terrible engine. In the province of Chu, which is the modern Sse-tchuen, the money was made exclusively of iron, and was, of course, very inconvenient. Tchang-yang, issued bills called *tsy-tchy*, and also *kuen*, to represent this iron-money. Under the reign of Teking-tsong, from 997 to 1022, this invention spread greatly. Private bank notes, called *kiao-tseu*, payable every three years, were allowed to be current for sixty-five years. They were for a tael of pure silver. A joint-stock company of sixteen of the richest merchants was formed, with power to issue such notes. The company at first succeeded very well, but new and inexperienced members having replaced the older ones, the company became bankrupt, and caused much misery and litigation. The *kuen* or *tsy-tchy* were payable in a different place to where they were issued. They thus resembled Bills of Exchange in their origin. The *kiao-tseu* were like bank notes, but only payable once in three years.

This bank, the first joint stock bank of issue, failed in 1017, but the invention was found to have so many conveniences, that a Commission was appointed to report whether the State might not found a bank of *kiao-tseu*. The Commission reported in favour of the plan, and in 1023, a State Bank was founded at Y-tcheou, the capital of Chu. It issued notes payable every three years, as the former ones, and all private issues were forbidden. In 1032,

it was found that its issues were 1,256,340 taels, or about 9,422,550 francs. The edict founding it ordered that it should have a capital of 360,000 taels in specie. The *pien-tsien* gradually disappeared before the *kiao-tseu*. In 1060 punishment of death was enacted against forgers of *kiao-seu*.

In 1069, the Government established a Bank of *kiao-tseu*, at Lou-tcheou, in the province of Ho-tong. In 1070, it founded a similar one in Chen-sy to pay the army contractors in *kiao-tseu* instead of *tchao*, or short dated bills, as they had been used to. The contractors were so discontented that the Government had to give up the plan, but the bank was kept up.

The *kiao-tseu* were redeemable in three years. The holder might have specie or new bills at his option. They seem to have been so popular, that in 1072, when seventeen of the twenty-two terms had expired, only 6,340 taels of paper had been paid off, and it was decided to create a new series of *kiao-tseu* of twenty-five terms, to the amount of 1,250,000 taels, to redeem the old series. In 1076, on pretence that the merchants made too great profits at the expense of the Government, the issue of *kiao-tseu* was suspended in Chen-sy. In 1094, it was observed that trade had drawn a large number of *kiao-tseu* to Chen-sy, and the province where they were issued was in want of them. To remedy this a creation of 150,000 taels for one term of three years was allowed.

In 1102, issues of *kiao-tseu* were resumed in Chen-sy. In 1107 those of Sse-tchuen were replaced by other obligations, called *tsien-yn*. About this time the abuses of paper money, which have been so frequently practised in modern times, began. The Tartars were now invading the country; and the Chinese Emperors had no resource except to create immense issues of *kiao-tseu*. A new series were created, payable every year, of which one of the new was equal to four of the old. The *kiao-tseu* were replaced by *tsien-yn* of forty-three terms, payable every year. In all commercial payments above 10,000 *tsien* one-half was ordered to be paid in *tsien-yn*, and one-half in copper. These orders created great discontent among the people. Each *tsien-yn* of 1,000 *tsien* had fallen to 100. In 1107-1121 the banks for the issue of *tsien-yn* were relieved from the necessity of cash payments, and the issues were enormously increased. The *min* of 1,000 *tsien* had now fallen to 10 *tsien*. Shortly after this they were sup-

pressed. They never circulated in Fo-kien, Kiang-tche, or Hou-Kouang; but chiefly in King-tong-si, Hoai-nan, and Cai-fong-fu, where the Court was, and the northern provinces, where there was always a scarcity of money to carry on the war.

In 1131, after the Tartars had conquered the northern provinces, the money was in the greatest disorder. To pay the troops new bills, called *kouan-tseu*, were created, which were payable in the interior. But when the time for payment came, the Government could only pay one-third part of their value, and so they fell to a heavy discount. In 1133 new issues were made.

In 1158, under the same Emperor, the copper vessels of private persons and of the religious sects were confiscated. In 1160 the officers of State were not allowed to have more than 20,000 *min* or 150,000 francs in money, and private persons half as much. All gold and silver was ordered to be brought to the Treasury; and in exchange bills for tea, salt, and other things were given. In 1159, new State bonds, called *kouan-tseu* and *kong-kue* were created, the former for three years, and the latter for two. The provinces of Hoai-sy and Hon-kouang received 800,000 taels, or 6 million francs, of the former; Hai-tong received 400,000 taels of the latter. They were divided in notes equal to 750 and 7,500 francs.

In 1160 new bills, named *hoei-tseu*, were issued on bullion in the Treasury; and the Government declared that they would only use them in the purchase of the annual supplies of salt and other necessaries, and not for State expenses. In 1162 death was denounced against forgers of these bills. Each bill was for 1,000 pieces (or 7·50 francs), and was called a *tao*. Their circulation was at first limited to Liang-tche, but it was soon extended to Tche-kiang, Hon-kouang, and Pe-king-sy. The Government paid half in specie, and half in *hoei-tseu*, and ordered the same in private payments. In 1163, the new Emperor Hiao-tsong created *hoei-tseu* of 500, 300, and 200 pieces (or 3·50, 2·50 and 1·50 francs). No term of payment was mentioned, and so they rapidly fell to a heavy discount. In 1166, the Emperor issued 1,000,000 ounces of silver to buy them up.

In 1137, a report stated that in Chu or Sse-tchuen, which was the parent of paper money, there was a mass of 37,800,000 of taels in circulation, or 284 millions of francs. In 1160, it had

increased to 41,470,000 taels, or 311 millions of francs. The iron specie amounted to 700,000 taels, or 5,250,000 francs.

In 1167, a minister reported to the Emperor that from 1160, to the second month of 1166, more than 28 millions of *tao* had been issued. Of *hoei-tseu*, and during that year, 15,600,000 more *tao* had been issued, and it appeared that the Treasury paid out each month from six to seven hundred thousand taels, or from 4·5 to 5·25 million francs, for the expenses of the State. On the other hand, the Generals refused every thing but specie, and the Governors of the provinces refused the State paper in payment of taxes. This greatly depreciated their value. The paper on which they were printed was so bad, that five millions wanted to be renewed. The Government said it would issue new notes at the rate of 100 *tsien* for every 1,000 *tsien* of the old ones. This new fraud greatly increased the public distrust.

In 1168, the exchange of the old for the new *hoei-tseu* began. They had an échéance of three years like the *kiao-tseu*, and each series amounted to ten million *taels*, or 750 million francs. A commission of 2 per cent. was charged on the exchange. But only the old ones which had the words *kouan* (thousand) and *pe* (hundred) still legible, were exchanged at their nominal value. The verificators had to distinguish the forged notes, and trace them to their first issuers, for which they received a large recompense. The old ones were only allowed four months to be exchanged, after that they were not to be current.

In 1175, the necessity for funds to carry on the Kin war made the Government resort to measures which ruined commerce and public credit. The tax collectors imputed the scarcity of money to the merchants, who were forbidden to export any. Every merchant vessel was searched before leaving by a special officer, who gave it a passport. But the merchants embarked their specie in little boats before the visit of the inspector, who probably took care not to see too much. Severe penalties were denounced against all who took away money, but in 1179, these severe decrees could not be carried out; and merchants were allowed to take with them a small quantity of specie.

The Government by several decrees in 1176, put off the payment of the several series of *hoei-tseu* till 1197. In 1195, Ning-tsong declared that each series of *hoei-tseu* should consist of thirty millions of *min*, or 225 million francs. In 1200, it was found

that the quantity of bills called *tchuen-yn* in circulation was more than fifty-three millions of *min*, or three hundred and ninety-five million francs; and besides that there were an almost equal quantity of bills at three terms.

In 1163, the Government had created a local paper money, to circulate in the provinces on the River Hoai. The *hoei-tseu* were prohibited in these provinces; and at the tolls on the river, tickets were issued to serve as an intermediary between the two currencies. Copper money was forbidden in these provinces, and iron only was allowed. The people were so discontented that the decrees had to be rescinded. In 1221, more than 300,000 *min* of this local paper money was issued. The Government always tried to emit the greatest quantity of paper money in the districts exposed to the attacks of the enemy.

It appears that since 1160 no paper money had been redeemed, except with fresh paper, which reduced the credit of the Government to a very low ebb. All the state officials, civil and military, were paid in paper. The army was in want of necessaries. Taxes were only paid in paper. Copper money was regarded as a rarity, and, of course, the more the paper was depreciated, the more the price of food rose. Some feeble efforts were made to improve the public credit by coining copper, but the quantity was very small, and it was much debased. In 1210, the Government sent a quantity of gold and silver to Sse-tchuen, where a new issue of thirteen million *min*, in bills, had greatly depreciated them. The *tchuen-yn* of 1,000 pieces had fallen to 400 and 100 pieces. The specie sent was sufficient to buy up thirteen million *min* of *tchuen-yn*, and their value rose to 500 pieces of iron in Sse-tchuen. Beyond this province the paper was only worth 170 pieces.

For nearly a century, the Niu-tchy, who had conquered the north of China, had followed the example of the Chinese, and created a paper money in their kingdom of Kin, which was called *kiao-tchao*. They made the tributary provinces pay in nothing but copper, and they paid themselves only in paper. This paper was issued with an échéance of seven years, when it was promised to be paid in specie. But, of course, this could not be done, and the paper money fell to a discount.

The Chinese historian says—"Paper should not be made money; it should only be used as a representative sign of metallic values,

or necessaries, which should be immediately exchanged for specie, and economise its transport. Such was the original use of paper among merchants. The Government, adopting this invention from private persons, made it into money; and then abused its original intention." The same writer says, in another place, that in a country which had no medium of exchange, except copper and iron, the use of paper as a bill of exchange, or note payable to bearer, was of great use in commerce. But the Chinese Government, whose rapacity had committed so many frauds on the coinage, could not respect this useful invention, when the cost of the war made a continual demand for money. It only maintained its engagements during the period of the first issue of *kiao-tseu*, at Y-tcheon; that is, for about seventy-five or eighty years.

The Kin Government was attacked by the Mongols and the Chinese, and it resorted to the same device of issuing paper money. The depreciated *kiao-tchao* were replaced by *pao-kuen*, *thong-pao*, *pao-tsuen*, *tchin-ho*, which were printed on silk, and by *pao-hoei*. These were all species of inconvertible paper money, The last mentioned were from 1 to 4 tsien, that is, from ·7 to 3 centimes.

No more metallic currency was made in China till 1276, when the Soung dynasty was overthrown. The only currency was the depreciated *hoei-tseu*. In 1235, a minister speaks of two species of *hoei-tseu*, at sixteen and seventeen terms, and complains of their daily increasing depreciation, and the rise of necessaries. In 1256, in order to diminish their number, it was ordered that the wine duties should be received in them, and then they were to be burnt. In 1265 the *hoei-tseu* were so utterly depreciated, that a new paper money was created, called *kien-tsien-kouan-tseu*. There was also a species called *yn-kouan*, or silver notes. The Government issued one of these last to redeem three *hoei-tseu* of eighteen terms; and received the *hoei-tseu* of seventeen terms in payment of the grain it sold to the people, and then burnt them. This was the last effort of the Soung dynasty; and China then fell under the Mongolians, greatly owing to the demoralisation caused by the misery produced by the paper money.

Many of the officers of the Mongolian king, Ogodai (1227-1248), had urged him to issue *kiao-tchao*, in imitation of the Kin kings. His minister, however, Ye-liu-tchou-tsai, had warned him of the danger of paper money; and told him that the paper was refused

in payment of taxes, and, in consequence, was so depreciated, that a cake of rice cost 11,000 *min*, or 75,000 francs. He advised that if the king was determined to issue paper money, its value should not exceed 10,000 *ting* of silver, or about 750,000 francs. This sage counsel, however, was not observed. In 1260, Koblai, or Chi-tsow, the first Mongol Emperor, who conquered all China, issued *kiao-tchao*, which were already depreciated one half. In the same year new issues were made, called *tchong-tong-yuen-pao-tchao* of several sorts, besides some printed on silk, called *tchong-tong-yn-ho*. In 1264, banks were erected throughout the empire for the issue of these notes. In 1276, new notes, called *li-tchao*, being little more than a centime or two. In 1279, these issues were stopped, but the old ones continued in circulation, though at a constantly increasing depreciation. In 1288, new issues were made, in which one new note was given for five of the same nominal value of the old. Thus the Government defrauded its creditors of eighty per cent. of their debts.

It was at this period that the celebrated Venetian traveller, Marco Polo, visited China; and discovered the existence of this paper money. In B. II., c. 18, he gives an account of its manufacture. He says that it was made in Kanbalu. The inner rind of the mulberry tree was steeped and pounded in a mortar, and then made into paper, resembling that made from cotton, but quite black. It was then cut into pieces nearly square, but of different sizes. The smallest were of the value of a Denier tournois; the next for a Venetian groat; others for two, five, and ten groats; others for one to ten gold besants. Several officers had to subscribe their names, and place their seals on each note, which was then stamped with the royal seal dipped in vermillion. Counterfeiting was a capital offence. It had then a forced currency, and no one dare refuse it on pain of death. Caravans of merchants arrived with their goods, which they laid before the king, who selected what he pleased, and paid them in this money. When any one wished to exchange old money for new, it was done at the Mint, at a charge of three per cent. If any one also wanted gold or silver for manufacture, they could obtain bullion at the Mint in exchange for the paper. He also mentions many cities where he observed this money.

In 1309, the Emperor Won-tsong, seeing the paper much depreciated, issued a third species, called *tchi-ta-yn-tchao;* which,

in fact, replaced the old at a depreciation of eighty per cent. Although some coinages of metal were issued, this paper was the only money recognised by the Government till the end of the Mongol dynasty. From 1341-1367, new issues were made which were to replace the old ones, and were called *kiao-tchao* of the period *tchi-teng*, as if the new ones were better than the old. But no one would take them. During this period, insurrections broke out in every quarter, which the author of the work *Tsao-mou*, which is a continuation of Matonan-lin, attributes to the general discontent caused by the abuse of paper money by the Mongols. But he does justice to the proper use of paper. He recalls the excellent effects which the creation of the *kiao-tseu* by Tchang-yang had previously had in Sse-tchuen. "Then," says he, "it was ordered that at the offices of the rich merchants who managed the enterprise, WHEN THE NOTES WERE PAID IN, THE MONEY CAME OUT; WHEN THE BILLS CAME OUT, THE MONEY WENT IN. THE MONEY WAS THE MOTHER, THE NOTE WAS THE SON. THE SON AND THE MOTHER WERE RECIPROCALLY EXCHANGED FOR EACH OTHER." Thus, we see, that even the famous CURRENCY PRINCIPLE was invented in China five hundred years ago! This is just the doctrine of some modern writers, that the sole duty of a bank is to exchange specie for paper, and paper for specie.

It was during this period that the famous English traveller, Sir John Maundeville, visited China, and he gives an account of the paper money there. He says,[1] speaking of the Emperor of Cathay, or China—"This Emperour may dispenden als moche as he wile with outen estymacioun. For he despendethe not, ne makethe no money, but of lether emprented, or of papyre. And of that money is som of gretter prys, and som of lesse prys, aftre the dyversitie of his statutes. And whan that money hathe ronne so longe, that it begynnethe to waste, than men beren it to the Emperoure's Tresorye, and than thei taken newe money for the old. And that money gothe thorghe out all the contree, and thorghe out all his provynces. For there and beyond hem thei make no money nouther of gold nor of sylver. And therefore he may despende ynow and outrageously."

We need not give any more details here of the history of inconvertible paper money in China. From 1160 to the end of the sixteenth century it had a forced currency, and was at one

[1] *Travels, p.* 239. *Edit* 1839.

time so depreciated, that 500 paper ounces were only equal to 1 silver ounce. It produced all the evils and misery which its use has caused in modern times in Europe and America. In 1644 the Tartar dynasty conquered China, and seeing that the fall of the Ming dynasty was greatly owing to the course of inconvertible paper money, they totally suppressed it.

3. Several Banks in Europe have been constructed on this principle, such as those of Venice in 1587, Amsterdam in 1609, Hamburg in 1619, and others. We have already[1] explained the cause of the institution of these Banks. They were founded solely for the purpose of remedying the inconvenience caused by the circulation of foreign and depreciated coins in their respective cities, and to insure a uniform standard of payment. They created Credit only in exchange for specie and bullion deposited with them; and they professed to keep it all in their vaults. The Credit was either in the form of entries in their books, or notes; but it is manifest that it was of no consequence which form it was in. These Banks were the exact realisation of the ideas of the Chinese writer: when the money went in, the Credit came out; when the money came out, the Credit went in.

These Banks never did any discount business; and if they had done so it would have been a violation of the "Currency Principle," because if the Credit created in exchange for specie had remained in circulation; and if they had purchased bills with the specie in their possession, that would manifestly have increased the quantity of currency in circulation by exactly the amount of the specie. Just as Smith observes that if paper be substituted for gold, that gold is like a new fund created for carrying on a new trade.[2]

We may here observe that Colonel Torrens is entirely mistaken when he asserts that Smith calls money and bank notes only, currency, excluding bank credits. For Smith, speaking of the Bank of Amsterdam, says[3]—"For the value which remained, after this small deduction was made, it gave a Credit in its books. This Credit was called Bank Money." And the Credit in the books of these Banks was expressly called Bank Money: which shews that a Bank Credit is precisely the same thing as a Bank Note.

[1] *Vol. I., ch. 7. § 66.* [2] *Wealth of Nations, B. II., ch. 2.* [3] *Ibid, B. IV., ch. 3.*

Now the principle of these Banks is perfectly clear and intelligible: and the school of which Lord Overstone, Colonel Torrens, and Mr. Norman are the most eminent members, maintained that this is the true principle of a paper currency, and that all Notes created in excess of the specie they displace are a depreciation of the currency. So also Mill says[1]—"The substitution of paper for metallic currency is a national gain; any further increase of paper beyond this is but a form of robbery."

4. But no banks of this description ever existed in England. When the goldsmiths commenced the business of banking, they received money on deposit, for which they gave interest; and they made their profits by multiplying their promises to pay several times beyond the amount of specie they held: and, therefore, they violated the "Currency Principle" every time they discounted a bill.

So also the Bank of Scotland received no deposits from the public at first: it was founded by its shareholders paying in £10,000 in money; and upon the basis of specie it was easily able to maintain £50,000 of its notes in circulation. Now this was most clearly a violation of the "Currency Principle." These notes as well as those of the English goldsmiths were clearly an *increase* of the currency; they were not merely in substitution for existing specie, but they were a creation of notes where no specie existed at all; and, consequently, according to the doctrine of those who hold the Currency Principle, they were a depreciation of the Currency; and, according to Mill, they were robbery! And, according to Mill, the whole of the Scotch system of banking is robbery; for when the banks established their branches in the country to promote agriculture and other works, they created and issued notes where no specie existed. But the Scottish people, who see the whole of their agriculture and commerce carried on by means of this system, will smile at such extravagant notions.

5. In fact, both the Currency Principle and Law's theory of money, although their effects are so different, are based on the same fundamental fallacy, namely, that paper *represents* money or commodities. Those who maintain the Currency Principle con-

[1] *Principles of Political Economy, B. III., ch.* 13, § 5.

sider Bank Notes to resemble Bills of Lading or Dock Warrants, which merely represent certain specific goods, and wish to restrain the amount of Bank Notes to the actual amount of specie, in the same way that Bills of Lading and Dock Warrants are limited to the actual amount of the goods. Law wished to extend paper to represent all commodities and land, as well as specie. But these ideas, as we have shewn, are entirely erroneous. For the quantity of Credit which may be generated does not represent simply the quantity of specie, but the quantity of specie combined with its velocity of circulation. Every future payment has a PRESENT VALUE; and this Present Value is an Exchangeable Commodity which may be bought and sold. And, therefore, the quantity of Credit which may be safely generated purely depends upon the methods of extinguishing it, which we have fully set forth in a former chapter.

6. We have now fully explained the Definition of Currency and the Theory of Currency which the framers of the Bank Act of 1844 adopted, and intended to carry into effect. We have now to examine how far the Bank Act does really carry that Theory into effect, and what have been the consequences of doing so. But in order to understand clearly the modifications introduced by that Act, we must explain the original constitution of the Bank, and also the leading principles upon which it has been successively managed at different times. In fact, to understand the subject thoroughly, we must refer the reader to the history of Banking in England given in our *Theory and Practice of Banking*, which is far too large to incorporate with this work, but which should be read in connection with it.

The Bank of England was founded by certain clauses in the Act, Statute 6 William & Mary (1694), c. 20, to provide means to carry on the war against France. The intention was to raise a loan of £1,200,000 for that purpose. The subscribers were to be incorporated as the Governor and Company of the Bank of England, with powers of banking. They were authorised to issue Bank Notes (called in those days Bills Obligatory, or of Credit) to the amount of their subscribed capital, which was advanced to Government: and these Notes might be freely transferred by indorsement each time, to those persons who should voluntarily accept them, and all such assignees might sue thereon in their

own name. In case the Bank issued Notes in excess of their capital, the proprietors were to be liable in their private capacity. The subscribers, in exchange for the original £1,200,000 advanced to Government, received stock bearing an interest of 8 per cent.: or an annuity of £100,000.

Now we at once observe the essential distinction between the Banks of Venice, Amsterdam, and Hamburg, and the Bank of England. The former banks were examples of the CURRENCY PRINCIPLE. The bullion paid into them was kept, or was professed to be so, in their vaults; and so long as it was so, the Credit created by them was exactly equal to the bullion paid in. Their function was solely to gratify the sigh of the Chinese writer to exchange Credit for Bullion, and Bullion for Credit. Hence these banks created no *augmentation* of the Currency.

But the case of the Bank of England was clearly wholly different. The Bank paid over to Government the whole of the money subscribed as capital, which they put into circulation for the expenses of the war. But the Bank was *also* permitted to create £1,200,000 in Bank Notes, and put them into circulation by discounting bills, or otherwise. Thus the Bank had not only sold its cash to Government, but it was also allowed to have it as well in the form of Notes to trade with, and make a profit.

Now can any one fail to see that this proceeding *augmented* the Currency by the amount of £1,200,000, and that the Bank made a *double* profit; first the interest on the money advanced to Government, for which they received stock in exchange bearing 8 per cent. interest; and *secondly*, the commercial profits made by trading with the notes?

Therefore, so far as this went, this was clearly an example of LAWISM.

7. In 1697 the Bank was authorised to increase its capital by upwards of a million. Of this sum, above £800,000 was received in Exchequer tallies, then at a discount of 50 per cent., and £200,000 in its own notes, then at a discount of 20 per cent. Both the tallies and the Bank Notes were counted as specie at their full nominal value; and, upon this augmented capital of tallies and notes, they were permitted to *create* an equal amount of new notes to trade with!

Law only proposed to issue paper money based upon the security of land, or some other solid article of value. But the Bank of England was permitted to create Paper Currency based upon the security of its own depreciated Credit!

In 1709 the Bank was allowed to double its capital, and to *create* an equal amount of notes to trade with.

Now, is it not as clear as the sun at noon day, that each of these issues of Notes was so much increase of Currency, and an example of LAWISM?

8. Now, if the same *principle* had been carried out to the present time, is it not clear that all the public funds would have been Bank stock, and that the Bank Notes would have equalled the amount of the National Debt, or about £800,000,000? Some persons even now seem to think that this is a good principle. They seem to think, that if they carry stock to the Bank, they have a right to have it coined into notes to any amount. It is clear that this principle could never be carried out to its full extent. For, if it were true, Government might go on creating public debt *ad infinitum*, and then the Bank would create an equal amount of notes. If this principle be true, what would be the use of going to California and Australia for gold? Is not this *principle* more mad than any thing Law ever wrote? Law's issues of paper were *limited* by the value of the land, but this plan has positively *no* limits whatsoever.

9. Up to 1711 the issues of the Bank were strictly limited to the amount of their capital; and it was declared that, if the Directors exceeded that limit they should be liable in their personal capacity. Afterwards they were released from this limitation, and they were allowed to issue notes to any extent they pleased, provided always that they were payable in specie on demand.

And so the Bank went on till 1797, when it stopped payment, and committees were appointed by Parliament to investigate its affairs, who reported it to be in the most solid and flourishing condition; and that they had a surplus of assets above liabilities of nearly four millions, besides the Government debt amounting to £11,686,800.

The reason of this was plain. The notes it had issued were

given in exchange for mercantile securities, and, therefore, the Bank had as security for the payment of its Notes, *both* the commercial bills *and also* the Government debt.

This, no doubt, amply secured the solvency of the Bank, and the payment of its Notes; but it played utter havoc with the CURRENCY PRINCIPLE.

10. In 1696 the Bank was obliged to suspend payments in cash, in consequence of the great monetary disorder caused by the bad state of the coinage. Its notes soon fell to a considerable discount; the lowest being 24 per cent. in February, 1697. After that they gradually rose till they attained par in October, 1697. During all this time nobody ever thought of saying anything else than that the notes were at a discount. No one thought of saying that the notes were the standard, and that gold had risen. We have given a table elsewhere[1] shewing the difference in the Rates of Exchange as paid in coin or Bank Notes.

Soon after the suspension of cash payments in 1797, the price of gold began to rise. It was £3 17s. 6d. in May, and £4 in December, at which price it continued till September, 1799. In June, 1800, it rose to £4 5s., and in December to £4 6s., and the exchange on Hamburg, which had been considerably above par for several years, fell to 29·8; being upwards of 14 per cent. against England.

This state of matters gave rise to several publications, and Lord King published a pamphlet to demonstrate that it was due to the depreciation of the Paper Currency; and maintained that the value of the Paper was to be estimated by the market price of bullion, and the state of the foreign exchanges.

In 1804 a great derangement took place in the Irish Currency. The Bank of Ireland had been compelled by law to suspend payments in cash at the same time as the Bank of England; although there was no necessity for it, as the Exchanges were favourable to Ireland, as they always are, from the course of trade between England and Ireland. Relieved from the necessity of paying in cash, the Bank of Ireland extended its issues enormously. In 1804 they were fivefold what they were in 1797. In consequence of this, Irish Bank Notes fell to a heavy discount. Guineas were commonly sold at a premium of 2s. 4d. or 2s. 6d.

[1] *Theory and Practice of Banking, Vol. I., p.* 363.

when paid for in paper. The exchange fell to 20 per cent. against Dublin. While at Belfast, where Irish Bank Notes did not circulate, but the exchanges were calculated in specie, the exchange was in favour of Belfast, as it had been all along. A Committee of the House of Commons was appointed to investigate the subject, and they expressly attributed the depressed state of the exchange with Dublin to the excessive issues of the Bank of Ireland, and declared that it was their duty to limit their issues during an unfavourable exchange, just in the same manner as they had been accustomed to do before the Restriction Act. This was the first declaration by a Parliamentary Committee that the issues of notes should be regulated by the state of the Exchanges.[1]

A few years afterwards the same phenomena manifested themselves in England. In February, 1809, the price of gold rose to £4 10s., and the exchange with Hamburg fell to 31·, and continued to fall till January, 1810, when it was as low as 28·6. This state of matters caused such a derangement of commerce that the Bullion Committee was appointed, and came to precisely the same conclusion as the Irish Committee of 1804, that these effects were produced by the excessive issues of Bank Notes. They said that the true value of the paper was to be estimated by the Market or Paper price of gold, and the state of the foreign exchanges. In former times a high price of bullion and an adverse state of the exchanges, had compelled the Directors to reduce their issues to counteract the drain of guineas, and to preserve their own safety. Since the restriction they had not followed the same principles, as they did not feel the inconvenience. Nevertheless, they ought to observe the same rules as before the restriction, and to continue to regulate their issues by the market price of bullion, and the state of the foreign exchanges.

Some proposals had been made of remedying the evil by a compulsory limitation of the Bank's power of issuing Notes. But the Committee entirely discountenanced the plan of imposing a numerical limit on the Bank's issues, because the necessary quantity could never be fixed; and such a course might very much aggravate the severity of a temporary pressure.

A very important distinction, however, was to be observed between a demand for gold for domestic purposes, sometimes great

1 *Theory and Practice of Banking, Chap. VIII.*, § 14—32.

and sudden, and caused by a temporary failure of confidence, and a drain arising from the unfavourable state of the foreign exchanges; *that a judicious increase of accommodation was the proper remedy for the former phenomenon; but a diminution of its issues, the correct course to adopt in the latter.*

The Report emphatically declared that the mere numerical amount of notes in circulation, at any time, was no criterion whatever of their being excessive; the only sure criterion was to be found in the Price of Gold Bullion and the state of the Exchanges.

Mr. Thornton, in the debate on the Bullion Report in 1811, adduced a striking instance to shew the effect of reducing the issues of Bank Notes on the Exchanges. In 1805 the French Government had occasion for a loan, and applied to the merchants for it, as such a transaction was contrary to the rules of the Bank. The merchants proceeded to fabricate bills among themselves, which they discounted at the Bank, which thus became the real lender. There was, in consequence, a very large increase of Bank paper, and a great demand for specie, and after sustaining great losses in buying up specie, the Bank at last was obliged to stop payment. Bank Notes fell to a discount of 10 or 12 per cent.; and the Exchanges fell 10 per cent. But the Bank reduced its issues; and in three months the Exchanges were rectified, and the Bank resumed cash payments.

The doctrines of the Bullion Report were, however, entirely rejected by Parliament; and while it was openly proved that light guineas were selling at 27s., the House of Commons voted, by a large majority, that in public estimation guineas and Bank Notes were equal: that is, that twenty-one was equal to twenty-seven. This is probably the most extraordinary vote of any Assembly in the world, and can never be alluded to without feelings of the greatest shame! but such is the force of party spirit that among the names of the majority was ROBERT PEEL.

However, the Bank being freed from all restraint by this vote, increased its issues, which became still more depreciated, until in August, 1813, the Price of Gold Bullion rose to £5 10s., and the real value of the Bank Note was 14s. 2d. After, however, the first abdication of Napoleon, the price of gold fell to about £4 16s., making the value of the Note 18s. 1d. But during the hundred days, the price of gold rose to £5 7s., and the Note fell to 14s. 5d.

After Napoleon's final overthrow at Waterloo, the price of gold rapidly fell, and the value of the Note rose. In the beginning of January, 1816, the price of gold was £4 2s., and the value of the Note, 19s. 0·3. When the Bank was relieved from all fear of having to resume cash payments, country banks multiplied greatly. In 1811 there were 728; in 1813 they had risen to 940, and the amount of their issues was supposed, on the most moderate calculation, to be £25,000,000.

A long series of bad harvests, and the depression of the paper currency, had raised the price of corn to an extravagant height. In August, 1812, wheat stood at 155s. the quarter. A fatal idea became prevalent that such a price would be permanent. Immense speculations began in land jobbing; vast tracts of waste and fen lands were reclaimed. It was at this time that the great agricultural improvements in Lincolnshire were effected. Rents rose to treble what they were in 1792: all the new agricultural engagements entered into at that period were framed on the basis of these extravagant prices; landlords and tenants increased their expenditure in a similar ratio, and family settlements were calculated on the same scale.

After the disasters of Napoleon in Russia and Leipsic, the ports of Russia and Northern Germany were thrown open to British commerce; and this naturally gave rise to enormous speculative exports and over-trading. These were at their height in the spring of 1814: and the prices of commodities rose to an unusual height. Every branch of industry was affected by these causes. But the natural consequence of such inflation soon followed. The harvest of 1813 was very abundant, and in July, 1814, wheat had fallen to 68s. a quarter. A violent revulsion and general depression of prices of all sorts of property then began, which entailed universal losses and failures among the agricultural, commercial, manufacturing, mining, shipping, and building interests. The disasters commenced in the autumn of 1814, continued with increasing severity during 1815, and reached their height in 1816-17. During these years 89 country bankers became bankrupt, and, according to usual calculation, about four times as many ceased operations: and the reduction of the issues of country paper was such, that in 1816 its amount was little more than half what it had been in 1814.

This general discredit of country Bank paper, resembling

what had previously occurred in 1793 and 1797, caused a demand for additional issues from the Bank of England, to help to maintain public credit; and, though this caused an extension of the Bank paper by upwards of three millions, so great was the abstraction of country Bank paper from circulation (to certainly three times the amount of the Bank of England issues), that the value of the whole currency rapidly rose, so that, while in May, 1815, the market or paper price of gold was £5 6s., the exchange in Hamburg 28·2, and that on Paris 19·3 in October, 1816, the paper price of gold had rapidly fallen to £3 18s. 6d., the exchange with Hamburg was 38', and that on Paris 26·10, and they remained with little variation at these prices till July, 1817.

Hence, at length, was manifested the most complete triumph of the principles of the Bullion Report. The great plethora of this worthless quantity of paper currency being removed, the value of the whole currency was raised almost to par; so near, in fact, that the smallest care and attention would have brought it quite to par; and if means could have been taken to prevent the growth of the rank luxuriance of country Bank Notes, cash payments would have been resumed at this period with the utmost possible facility, and, as a matter of course, without exciting the least comment.

11. On several previous occasions, the Bank had intimated to the Government their perfect readiness and ability to resume payments in cash, but had always been prevented from doing so for political reasons. In 1815, when peace was finally restored, they prepared in good faith to be ready to do so as soon as they should be required, and, during that year and 1816, they accumulated so much treasure that, in November, 1816, they gave notice of their intention to pay all their notes dated previously to the 1st January, 1812, and in April, 1817, all their notes dated before 1st January, 1816. When this was done, there was found to be scarcely any demand on them for gold. The nation had got so accustomed to a paper currency, that they were most unwilling to receive gold for it. Mr. Stuckey, one of the largest bankers in the West of England, said that during this partial resumption of cash payments it cost him nearly £100 to remit the surplus coin which accumulated

upon him to London, as he could not get rid of it in the country, his customers all preferring his notes; many persons who had hoarded guineas, requested as a favour to have notes in exchange.

12. The partial resumption of cash payments was attended with perfect success; it caused no very great demand for gold which continued to accumulate in the Bank till October, 1817, when it reached its maximum, being £11,914,000. In that month the Bank gave notice that it would pay off in cash all the notes dated before 1st January, 1817, or renew them at the option of the holders. In the course of 1817 a very large amount of foreign loans were contracted for; Prussia, Austria, and other continental States of lesser importance, were endeavouring to replace their depreciated paper by a metallic currency; and as money was very abundant in England, a very large portion of these loans were taken up here. The effect of this began to manifest itself in April, 1817, when the exchange with Hamburg and Paris began to give way, and the market price of gold to rise. The Bank took no proper steps to reduce their issues, and the consequence was that these phenomena increased during 1818, and in January, 1819, the price of gold was £4 3s., the exchange on Hamburg 33·8, and that on Paris 23·50. In July, 1817, the new gold coinage began to be issued from the Mint in large quantities. The consequence was that a steady demand for gold set in upon the Bank; and in pursuance of its notices, the sum of £6,756,000 was drawn out of it in gold. Just at this time the British Government reduced the rate of interest upon Exchequer bills. The much higher rate of interest offered by continental Governments caused a great demand for gold for exportation, and during 1818 a very decided drain went on. The Bank directors, however, determined to set all the principles of the Bullion Report ostentatiously at defiance. While this great drain was going on, they increased their advances to Government from £20,000,000 to £28,000,000; and though they knew perfectly well that the demand for gold was for exportation, they took no measures whatever to reduce their issues for the purpose of checking the export. At the same time the country bank notes were two-thirds greater than in 1816.

The demand for gold continued to increase, and in January,

1819, it became evident that the Bank would soon be exhausted, if legislative interference did not take place. Accordingly, on the 3rd February, 1819, both Houses appointed Committees to inquire into the state of the Bank; and, on the 5th April, they reported that it was expedient to pass an Act immediately to restrain the Bank from paying cash in terms of its notices of 1816-17. An Act for that purpose was passed in two days' time. It was stated in the Report of the Commons that in the first six months of 1818, 125 millions of francs had been coined at the French Mint, three-fourths of which had been derived from the gold coin of this country. The Act forbade the Bank to make any payments in gold whatever, either for fractional sums under £5, or any of their notes, during that session of Parliament. The Act, therefore, totally closed the Bank for payments in cash.

13. The chief points of interest in the Reports of the two Houses regarding our present subject, are the opinions held by the witnesses respecting the great doctrines of the Bullion Report. The reports of neither House entered into the question of the theory of the Currency, they were confined to recommending a certain course of action; but they examined a number of witnesses of the first eminence on the subject, and the result of their evidence is most extraordinary. It will be remembered that, both in 1804 and 1810, the immense preponderance of commercial testimony was entirely adverse to the doctrine that the issues of paper currency had any effect upon the exchanges, or the price of bullion, or should be regulated by them. Nevertheless, the reports of both Committees were entirely in the teeth of the mercantile evidence. The Bullion Report had now been before the country for nine years, and had caused more public discussion, both in Parliament and in the press, than almost any subject whatever; and it is perfectly manifest that if its principles were erroneous, the commercial world would only have been further strengthened in their opposition to them. But what was the result now? The overwhelming mass of commercial evidence was entirely in their favour. The current of mercantile opinion now was just as strong on their side as it had formerly been against them. What could be more triumphant than this? What could be more splendid testimony to their accuracy and soundness than the fact that they

had converted the immense hostile majority of the commercial world?

Several even of the Directors of the Bank were converted to these doctrines; but the majority of the Court was still hostile, and on the 25th March, 1819, they passed this resolution—

"That this Court cannot refrain from adverting to an opinion, strongly insisted upon by some, that the Bank has only to reduce its issues to obtain a favourable turn in the exchanges, and a consequent influx of the precious metals; the Court conceives it to be its duty to declare that it is unable to discover any solid foundation for such a sentiment."

Among the most distinguished converts to the doctrines of the Bullion Report was PEEL, who had voted in the majority in 1811 against them. He was appointed Chairman of the Commons Committee, and entrusted by the Government with the conduct of the Bill determined upon by the Government. The Bill was brought in on the 24th May, 1819,[1] and Peel avowed his conversion to the doctrines of Horner. On five different occasions Parliament had declared that cash payments should be resumed as soon as possible: and the public now doubted the sincerity of these declarations. Every sound writer agreed that a certain weight of gold bullion of a certain fineness constituted the only true, intelligible, and adequate standard of value: and to that the country must return. No doubt the Bank was perfectly solvent, but did it follow from that that there could be no over-issue of its paper? If solvency alone was a sufficient proof that there was no excess of circulation, the theory of Law was just, and the land as well as the funds might be safely converted into a circulating medium. *There was, in fact, no test of excess or deficiency, but a comparison with the price of gold.* This was not indicated by theory alone; the last few years had afforded abundant experience to support and confirm it.

As the Bank had so entirely repudiated the principles of the Bullion Report, they could not be expected to act upon them. It had been proposed "to prescribe such a limitation of the issues of Bank Notes as would secure the power of the Bank over the foreign exchanges. He, for one, confessed that *this always appeared to him a very unwise position*, and, for this reason, that it depended so much on circumstances, when to say there was an

[1] *Hansard's Parliamentary Debates, Vol. XL., p. 676.*

excess or not of circulation. *There were occasions when what was called a run on the Bank might be arrested in its injurious effects by an increase of the issues.* There were other occasions when such a state of things demanded a curtailment. In the year 1797, when a run was made on the Bank, but when the Exchanges were favourable, and the price of gold had not risen, it was proved that an extension of issues might perhaps, by restoring confidence, have rendered the original restriction unnecessary, and prevented the evil results of the existing panic. On the other hand, if the run was the effect of unfavourable exchanges and the consequent rise in the price of gold, the alarm must be met by a reduction of the issues. *It was, therefore, impossible to prescribe any specific limitation of issues to be brought into operation at any period how remote so ever.* The quantity of circulation which was demanded in a time of confidence varied so materially from the amount which a period of despondency required, that the House must feel *the absolute incapability of fixing on any circumscribed amount.*"

14. As the Act which was passed on this occasion has acquired great celebrity, and has been much misunderstood, we will give its chief provisions. It was the Act, Statute 1819, c. 49.

1. "The Acts then in force for restraining cash payments should be continued till the 1st May, 1823, when they were finally to cease."

2. "That, on and after the 1st February, and before the 1st October, 1820, the Bank of England should be bound, on any person presenting an amount of their notes, not less than of the value or price of 60 ounces, to pay them on demand at the rate of £4 1s. per ounce, in standard gold bullion, stamped and assayed at the Mint."

3. "That between the 1st October, 1820, and the 1st May, 1821, it should pay in a similar manner in gold bullion at the rate of £3 19s. 6d. per ounce."

4. "That between the 1st May, 1821, and 1st May, 1823, the rate of the gold bullion should be £3 17s. 10½d. per ounce."

5. During the first period above mentioned, it might pay in gold bullion, at any rate, less than £4 1s., and not less than £3 19s. 6d. per ounce; in the second period, at any rate, less

than £3 19s. 6d., and not less than £3 17s. 10½d., upon giving three days' notice in the "Gazette," and specifying the rate; but, after doing so, they were not to raise it again."

6. "These payments were to be made in bars or ingots of the weight of 60 oz. each, and the Bank might pay any fractional sum less than 40s. above that in the legal silver coin."

7. "The trade in gold bullion and coin was declared entirely free and unrestrained."

These are the provisions of the Act which has so often been alluded to in terms of the greatest praise, or the greatest bitterness, as Peel's Act of 1819: and it is almost universally supposed that the resumption of cash payments was forced on the Bank by this Act. This, however, is a most profound delusion. The Act, as will be seen, did not compel payments in *coin* till the 1st May, 1823. Until that time the Bank was directed to pay its notes in ingots of gold bullion; and in sums of not less than 60 ounces at a time: and at a rate of depreciation which gradually diminished.

This fantastic scheme was a project of Ricardo's; and whether it was ever put into operation we have no means of knowing. But it is absolutely certain that it had nothing to do with the return to payments in coin. The accumulation of treasure in the Bank became so rapid in 1820, that early in 1821 the Directors felt themselves in a position to resume payments in coin: and they obtained an Act to permit them to do so on the 1st May, 1821, instead of 1823, as limited by Peel's Act. The Government had repaid £10,000,000 of the debt it owed the Bank, which all the witnesses agreed was a necessary preliminary to enable the Directors to contract their own issues. The Act, Statute 1821, c. 26, enacted that the Bank might resume payments in gold coin on the 1st May, 1821. That persons offered to be paid in coin should not have the right to demand ingots: but if the Bank did not offer to pay in coin, the right to demand ingots should continue. The last impediment to the export of bullion were swept away. The Bank was bound to exchange their larger notes for any one who demanded it, but they had the option of paying in £1 notes or gold.

This was the real Act under which payments in gold coin were resumed, which have happily never since been interrupted. And we see that those who extravagantly praise, and those who

persistently blame, Peel's Act, are equally in fault, for it had absolutely nothing whatever to do with the resumption of cash payments. Mr. Turner, a Director of the Bank, states—"With regard to the effect of Mr. Peel's bill on the Bank of England, I can state from having been in the direction during the last two years, that it has been altogether a dead letter. It has neither accelerated nor retarded the return to cash payments."

In fact, there is great injustice in attributing much either of the praise or of the blame of passing this Act through Parliament, to Peel. The legislature was solemnly pledged to return to cash payments while he was yet a school-boy in the junior forms of Harrow. There does not appear to have been any speaker fantastic enough to propose that the Bank should *never* return to cash payments. The Bank of its own accord commenced partially to resume cash payments in 1817, and would have succeeded in so doing, if it had not so perversely rejected the principles of the Bullion Report. And if it had not been owing to circumstances which disturbed its management in 1818, and which it was incompetent to deal with, cash payments would have been resumed while Peel was still in that unconverted state in which he voted against Horner's resolutions in 1811. So far was he from converting Parliament, that he was himself one of the latest converts, and the ministry conferred great honour upon him by allowing him, while yet so young, to take such a prominent part, and be the mouth-piece of the unanimous determination of the Legislature.

But if he is entitled to little of the praise, still less is he liable to the blame which has been heaped upon the Act by a number of fanatical writers from that day to this, who have most egregiously misrepresented the facts. It is often alleged and supposed that while the Bank Note was in a state of great depreciation, he, by some mysterious influence, induced the Legislature to pass an Act to compel the Bank to resume payments at once in full weighted coin. And to this imaginary circumstance all sorts of imaginary evils have been attributed. But such statements are absolutely false. The great restoration of the Bank Note to its par value very nearly took place in 1816, and was caused by the enormous destruction of the country bank paper. During the latter months of 1816, the price of gold was £3 18s. 6d., which shewed that the value of the Note was 19s. 10·2, a depreciation which was

almost imperceptible; and it was entirely owing to the mismanagement of the directors that the depreciation increased during 1818. In January, 1819, the price of gold was £4 3s., and the value of the Note 18s. 9·5. However, Peel's Act did not even compel the Bank to redeem its notes in gold ingots at par. Up to October, 1820, they were to be redeemed at the rate of £4 1s. per ounce; or the value of the Note was 19s. 3·1; after that, till 1st May, 1821, the price of gold was to be £3 19s. 6d., or the value of the Note 19s. 7d.; and even after that, two years were to elapse before they were to be payable at par in coin. Peel's Act, therefore, expressly allowed the Bank Notes to be redeemed at the current depreciation of the day, provided they were demanded in certain quantities. But as it was perfectly within the power of the Bank to bring them to par if they chose to do so, the Act gave them abundant time to take the necessary measures to efface the slight depreciation they were then subject to. This cautious policy was, however, found to be quite unnecessary, and the Bank, by an Act of their own, resumed payment in coin at par in 1821, two years before they were obliged to do so by Law. Hence the allegation that Peel's Act compelled the Bank to pay off their depreciated Notes at par, which is so often made, is utterly untrue, and it is highly discreditable that it should be so often repeated, even in these days.

15. At length, in 1827, the light penetrated the Bank parlour. The principles of the Bullion Report were acknowledged to be true, and professedly adopted by the Bank. Mr. Ward stated in 1832 that there was not a single person in the Bank who did not admit that its issues should be regulated by the foreign exchanges and the bullion market. In 1819 the Directors had forwarded a resolution to the House of Commons denying that the exchanges were to be regarded in regulating the issues. He himself, from being connected with the exchanges, had many opportunities of observing its practical truth. The Bank Directors, however, were not convinced of it, because they found in practice that the exchanges did not follow the issues of the Bank. But the truth was they neglected to consider the issues of the country banks; and it was only in 1819 that they obtained a correct account of the country issues: when that was got, it was found that, taking the Bank and the country issues together, the

principle was quite correct. The observation of these facts had gradually convinced the Directors; and in 1827 the resolution of the Directors in 1819 was solemnly expunged from their books.

16. The truth of the principles of the Bullion Report being acknowledged, Mr. Horsley Palmer, the Governor of the Bank, explained to a Committee of the House of Commons how the Bank endeavoured to carry them into effect. He said that in a period of full Currency, and, consequently, with a par of exchange, the Bank considered it desirable to invest two-thirds of its liabilities of all sorts in interest bearing securities, and one-third in bullion. The circulation of the country being then regulated by the action of the foreign exchanges, the Bank was extremely desirous to avoid using any active power of regulating the circulation, but to leave that entirely in the hands of the public. The action of the public was fully sufficient to rectify the exchanges without any forced action on the part of the Bank in buying or selling securities. He thought it desirable to keep the securities very nearly at the same amount, because then the public could always act for themselves in returning notes for bullion for exportation when the exchanges were unfavourable: and if there was a great influx of gold, the Bank could always re-assume its proportion by transferring part of the bullion into securities. He considered that the discount of private paper was one of the worst means which the Bank could adopt for regulating its notes, as it tended to produce a very prejudicial extension of their issues.

17. In the debate on renewing the Bank Charter in 1833, Peel gave it as his opinion that there should be but one bank of issue in the metropolis, in order that it might be enabled to exercise an undivided control over the issue of paper, *and give facilities to commerce in times of difficulty and alarm*, which it could not give with the same effect if it were subject to the rivalry of another establishment. He believed that the effect of the Usury Laws *in restricting liberal accommodation in time of commercial panic* was most injurious. He resisted at great length the proposal to make Bank of England notes legal tender between private persons, as a departure from the principle of the Act of

1819, and from the true principles which should govern a paper currency. The plan of making Bank Notes legal tender gave rise to a long debate, but was ultimately carried by 214 to 156.

Colonel Torrens strongly condemned the principle above given, which Mr. Palmer said was adopted by the Bank to regulate their issues. He said that the present Directors freely acknowledged that their predecessors in 1796, 1812, and 1819, were ignorant of the elementary principles of money and currency, and caused by their mismanagement ruinous fluctuations in the value of property.

18. Peel strongly opposed the creation of another bank of issue in the metropolis, as it might interfere with the power of the Bank of England to give accommodation to commerce in times of panic. But at this time there was nothing to prevent private bankers issuing bank notes in London. Up till 1772 all private bankers in London had done so; but they discontinued issuing notes after the panic of that year: but there was no law to prevent them doing so till the Bank Charter Act of 1844.

But at this time a new kind of banks was founded in London, which there can be no reason to doubt will ultimately change the whole system of banking.

When the Bank of England was founded it received no monopoly in its favour; and it was only in 1697, after the disastrous failure of the Land Bank Scheme, and the ruin of public credit, that the Bank was enabled to obtain a monopoly. But even that did not affect the common law right to establish such institutions; it only said that no rival bank should be erected or maintained by Parliament. None, however, were formed: but in 1708, another company began doing banking business by issuing notes. The Bank then, in 1709, obtained a clause in the Act of that year, prohibiting any company of persons exceeding *six* in number from "borrowing, OWING, or taking up money on their bills or notes, payable to bearer on demand," which was the meaning attributed to the word *banking* at that time. And it was supposed that to prohibit persons from *owing* money, on bills, or notes payable to bearer on demand, was an effectual bar to their undertaking the business of banking. And this clause was effectual for a considerable time. But about 1740,

some persons devised schemes for evading these words. In consequence of this, the Bank, on the renewal of their Charter in 1742, obtained a prohibition of banking companies being formed in much more explicit terms. A clause in the Act, Statute 1742, c. 13, § 5, says—"And to prevent any doubts that may arise concerning the privilege or power given by former Acts of Parliament to the said Governor and Company of *exclusive banking*, and also in regard to erecting any other Bank or Banks by Parliament, or restraining other persons from *banking* during the continuance of the said privilege granted to the Governor and Company of the Bank of England, as before recited, it is hereby further enacted and declared, by the authority aforesaid, that it is the true intent and meaning of the Act that no other Bank shall be erected, established, or allowed by Parliament, and that it shall not be lawful for any body, politic or corporate, whatsoever erected, or to be erected, or for any other persons whatsoever united, or to be united, in covenants or partnership, exceeding the number of *six* persons, in that part of Great Britain called England, *to borrow*, OWE, *or take up any sum or sums of money on their bills or notes payable at demand, or at any less time than six months from the borrowing thereof*, during the continuance of such said privilege to the said Governor and Company, who are hereby declared to be and remain a corporation with the privilege of *exclusive banking*, as before recited."

These words were devised with the utmost care, so as to prevent any other rival, in the most comprehensive manner possible. It was supposed that no legal ingenuity could devise an expedient to evade so extensive a prohibition. And for very many years it did have the effect of preventing any other joint stock bank in England being founded. But alas! for the wit of lawyers! At the time this clause was framed, all bankers, no doubt, issued notes. But we have seen that that is not the *essence* of banking. *The essence of banking is to* CREATE CREDIT; and no doubt all the early bankers, when payment of this credit was demanded of them, preferred to offer it in their own notes rather than in coin. But London bankers, after the experience of 1772, found it expedient to discontinue the issue of notes, and to confine themselves to cheques and payments in coin. And there was nothing in the words of the monopoly clauses of 1709 and 1742 to prevent a joint stock bank being formed to carry on business in the same

manner as the London bankers did. For very many years, however, this escaped observation. But about 1822 some writers discovered this loophole in the monopoly clause, and maintained that it was perfectly lawful to form joint stock banks which did not issue notes. No effect, however, followed for some time from this discovery. After the crisis and panic of 1825, an Act was passed to allow joint stock banks of issue at a distance of more than 65 miles from London. But in 1833 steps were taken to act upon the flaw in the monopoly clause, and form a joint stock bank in London. When the Government first entered into negotiations with the Bank in 1833 concerning the terms of the renewal of the Charter, they believed, as well as the whole mercantile community, that the monopoly forbade banks of any description whatever, with more than six partners, being formed. In the course of the negotiation, however, this new plan was brought under the notice of the Government, who took the opinion of their law officers upon so important a point. The opinion of the Crown lawyers was, that the clause did not prohibit joint stock banks of deposit being formed. The directors and proprietors of the bank were much disturbed at finding this flaw in their monopoly: and requested the Government to have it rectified; but Lord Althorp said that the bargain was that their privileges should not be diminished, but he would not agree to any extension of them. In order to remove all doubts upon the subject, the solicitor-general brought up a clause by way of rider, declaring the right to form such banks. He said that the basis of the contract with the Bank was, that they were to enjoy whatever monopoly they already possessed, but nothing beyond it. He had examined the case with the utmost care, and there was no pretence for saying that such banks were an encroachment upon the monopoly of the Bank. The Bank, as originally founded, was a *bank of issue*, and the monopoly first granted in 1697 must be held to refer only to banks *ejusdem generis*. Such had been the uniform language of all the subsequent Acts. The clause upon which their monopoly rested was strictly confined to the issue of paper money. Banks of deposit were lawful at common law, and it rested with those who said it was forbidden, to point out the Act which prohibited them.

By this Act, Statute 1833, c. 98, § 4, Bank Notes are made legal tender of payments for all sums *above* £5, by all persons

except by the Bank itself, or any of its branches; *so long as the the Bank pays its notes in legal coin on demand.* Hence a £5 Bank Note is *not* legal tender for a debt of £5.*

One-fourth of the debt due to the Bank by the public was to be paid off; and the proprietors might reduce the capital stock of the Bank by that sum if they pleased.

In the following year the first joint stock bank was formed in London; and thus the foundation was laid of a new system, which will, no doubt, ultimately transform the whole system of English banking.

19. We have seen that the Bank professed to adopt the principles of the Bullion Report, and, in order to carry them out, their plan was to keep their "securities" as nearly equal as possible; their cash and bullion at one half the securities; and, consequently, equal to one-third of their "liabilities." Having got the Bank into this position when the exchanges were at par, to throw any action either of the increase or decrease of their notes on the public, either by means of the foreign exchanges, or by an internal extra demand for gold. The Bank was got into an approach to this normal condition in October, 1833, when its "liabilities," *i. e.*, its notes and deposits, were £32,900,000; the "securities" were £24,200,000, and the cash and bullion £10,900,000. But the following figures, taken at intervals, shew how completely their practice varied from their Theory:—

	Liabilities.	Securities.	Specie.
11th March, 1834 ..	£31,372,000 ..	£24,777,000 ..	£8,901,000
15th July, ,, ..	37,554,000 ..	31,735,000 ..	8,298,000
9th Sept., ,, ..	31,058,000 ..	26,643,000 ..	7,010,000
13th Jan., ,, ..	33,071,000 ..	29,165,000 ..	6,608,000
5th May, ,, ..	29,417,000 ..	26,179,000 ..	5,951,000

Thus in May, 1835, the specie was little more than a fourth part of the securities, instead of one-half; and only one-fifth of the liabilities, instead of one-third.

During 1836 and 1837, there was a severe monetary pressure owing to over-speculation and various other causes which we need not detail. But in 1838 the Bank was got again into its normal position. On the 30th March its liabilities were £31,573,000; its securities, £21,046,000, and its specie £10,527,060. But about the end of 1838, another period of disorganisation commenced, as shewn by the following figures:—

	Liabilities.	Securities.	Specie.
18th Dec., 1838	£28,120,000	£20,776,000	£9,794,000
15th Jan., 1839	30,305,000	24,529,000	8,336,000
12th Feb., „	26,939,000	22,628,000	7,047,000
12th Mar., „	26,088,009	22,173,000	6,580,000
30th Apl., „	26,475,000	24,536,000	4,455.000
14th May, „	25,711,000	24,098,000	4,117,000
16th July, „	28,860,000	28,846,000	2,987,000

The Bank then seemed suddenly to wake to the fact that it was rapidly drifting into bankruptcy. It took some feeble measures, which had no effect; and among others it got the Bank of France to discount its own notes to the amount of £600,000. But when its notes fell due, it was in no position to meet them; and consequently it had to organise measures of a larger nature. A credit on Paris was created in its favour to the amount of £2,000,000, and on Hamburg to £900,000, This, after some time, arrested the drain of gold. The operations ensuing from this foreign credit extended over nine months, from July, 1839, to April, 1840.

20. The figures we have quoted, shewing the proportions between the bullion and the liabilities of the Bank, are sufficient to shew, either that there was some natural impossibility in adhering to the rule the directors had laid down for their guidance in 1832, or that they had not sufficient firmness to contract their securities in time of pressure to maintain it. The flagrant disproportion which these figures had assumed, which would scarcely be safe in an ordinary banking house, but which were to the last degree perilous in the Bank of England, which was known to be the last resource of every bank in the kingdom in times of difficulty, turned the attention of writers to devise some plan, by which, if possible, the Bank should be compelled to maintain the proper proportions between bullion and liabilities. Colonel Torrens appears to have been the originator of the idea, which was eventually adopted, of dividing the Bank into two distinct departments, independent of each other; one for the purpose of issuing a regulated amount of notes, and the other for carrying on the business of banking. This plan was first started in 1837, and was much canvassed and discussed by several eminent writers on the subject, such as Mr. Tooke, Mr. Norman, and others; and we shall see was afterwards one of the most

prominent features in Sir Robert Peel's Act of 1844. The great commercial and monetary crisis the country had passed through, within the few preceding years, attracted much public attention, and several petitions were presented to Parliament; and in March, 1840, the Government determined to institute an inquiry into the whole system of paper issues. On the 10th of that month the Chancellor of the Exchequer moved for a Committee for that purpose. He reminded the House that the Bank Charter would terminate in 1844, and he thought it expedient that they should not postpone inquiry into the subject till the last moment. That whatever might be the difference of opinion among the most intelligent men, as to what part of the difficulties they had gone through were to be attributed to the Bank of England, or other banks, still they were very strongly of opinion that the present system required revision and alteration. Leaving out of consideration former transactions, the difficulties and embarrassments which the country had gone through, within the last few years, had led the most important bodies, and the largest of the manufacturing towns, to make complaints—in calm and temperate language—and to express an anxiety that the House should institute an investigation into their complaints, and endeavour to provide adequate remedies. The chief points of interest connected with the report and evidence are—

1. That the principle propounded in 1832 for the management of the Bank, for the purpose of conforming with the principles of the Bullion Report, was totally condemned.

2. The great modern heresy, that Bills of Exchange form no part of the Circulating Medium, or Currency, which was first asserted before a Parliamentary Committee in 1832, was now maintained by a great majority of the commercial and banking witnesses.

3. This seems to have been the first adoption by mercantile men of the theory, which is the reigning banking fallacy of the present day, which is now known by the name of the "Currency Principle," which we have fully explained above.

21. The incorrigible mismanagement of the Bank of England, and the ability of the witnesses, Mr. Norman and Mr. S. J. Loyd, now Lord Overstone, examined before the Committee of 1840, had the effect of converting Sir Robert Peel to their views; and

being in power in 1844, when the Charter of 1833 might be terminated, he determined to reorganise the Bank on their principles.

On the 6th May, 1844, he brought in a resolution to continue, for a limited time, the privileges of the Bank of England. He said[1]—"I must state, at the outset, that, in using the word money, I mean to designate by that word the coin of the realm, and promissory notes payable to bearer on demand. In using the words paper currency, I mean only such promissory notes. I do not include in these terms bills of exchange, or drafts on bankers, or other forms of paper credit. There is a natural distinction, in my opinion, between the character of a promissory note payable to bearer on demand, and other forms of paper credit, and between the effects which they respectively produce upon the price of commodities, and upon the exchanges. The one answers all the purposes of money, passes from hand to hand without indorsement, without examination, if there be no suspicion of forgery; and it is, in fact, what its designations imply it to be, currency, or circulating medium. . . . . I think experience shews that the paper currency, that is, the promissory notes payable to bearer on demand, stands in a certain relation to the gold coin and the foreign exchange, in which other forms of paper credit do not stand." And after quoting some cases of the derangement of the exchanges from the Bullion Report, he said—"In all these cases the action has been on that part of the paper credit of the country which has consisted of promissory notes payable to bearer on demand. There has been no interference with other forms of paper credit, nor was it contended then, as it is now contended by some, that promissory notes are identical in their nature with bills of exchange, and with cheques on bankers, and with deposits, and that they cannot be dealt with on any separate principle."

Now we have simply to refer to the last chapter, where we have set forth the judicial exposition of the meaning of the word "Currency," in which it will be seen that Peel's new opinions were an innovation, and contrary to all Law and Philosophy. But that does not affect the incorrectness of his last assertion, that some said that they could not be dealt with on any separate principle, because it was quite possible to deal with them separately.

[1] *Hansard. Third Series, Vol.* 64, *p.* 270.

It was impossible for Peel not to see the inconsistency of his measure of 1844, with his expressed opinion in 1819 and 1833, that it was inexpedient to limit the issues of the Bank to any fixed amount at any period, however remote, because there were times of commercial difficulty, when an increased issue of notes might be the proper remedy. There is no doctrine more strenuously insisted on by the Bullion Report, by the statesmen of 1819, as well as by the Government in 1833, and Sir Robert Peel himself, at both these periods, than that it was impossible to fetter the discretion of the Bank in its issues. Sir Robert Peel knew that he was now taking away this power from the Bank altogether, and, accordingly, he was obliged to meet this objection. He said :—

"It is said that the Bank of England will not have the means which it has heretofore had of supporting public credit, and of affording assistance to the mercantile world in times of commercial difficulty. Now, in the first place, the means of supporting credit are not means exclusively possessed by banks. All who are possessed of unemployed capital, whether bankers or not, and who can gain an adequate return by the advance of capital, are enabled to afford, and do afford, that aid which it is supposed by some that banks alone are enabled to afford. In the second place, it may be a question, whether there be any permanent advantage in the maintenance of public or private credit, unless the means of maintaining it are derived from the *bonâ fide* advance of capital, and not from a temporary increase of promissory notes, issued for a special purpose. Some apprehend that the proposed restriction upon issue will diminish the power of the Bank to act with energy at the period of monetary crisis and commercial alarm and derangement. But the object of the measure is TO PREVENT (so far as legislation can prevent) the recurrence of those evils from which we suffered in 1825, 1836, and 1839. IT IS BETTER TO PREVENT THE PAROXYSM than to excite it, and trust to desperate remedies for the means of recovery."

Sir Robert Peel, therefore, deliberately took away the power of the Bank to act in extreme occasions, under the impression that his Act would prevent those extreme occasions from arising. We shall see how this hope was fulfilled.

Sir Charles Wood followed Sir Robert Peel, also adopting the "Currency Principle":—

"It is not enough, then, to enact that the Bank notes shall be

convertible. The paper circulation must not only be convertible, but must vary in amount from time to time as a metallic circulation would vary. A system, therefore, of paper circulation is required, which will attain this object, and insure a constant and steady regulation of the issues on this principle. This, and this alone, affords a permanent security for the practical convertibility of the notes at all times, and for the consequent maintenance of the standard."

The Bill was read a second time, after a feeble opposition, by a majority of 185 to 30. It passed through the House of Lords with a very short debate, and no division. Lord Radnor alone protested against it, and it received the Royal Assent on the 19th of July, 1844.

22. The chief provisions of this Act are as follows (Statute 1844, c. 32):—

1. That after the 31st August, 1844, the issue of Bank notes by the Bank of England should be kept wholly distinct from the general banking business, and be conducted by such a committee of the directors as the Court might appoint, under the name of the "Issue Department of the Bank of England."

2. That on the same day, the Governor and Company should transfer, appropriate, and set apart, to the issue department securities to the value of £14,000,000, of which the debt due by the public to the Bank was to be a part; and also so much of the gold coin and gold and silver bullion as should not be required for the banking department. The issue department was then to deliver over to the banking department an amount of notes exactly equal to the securities, coin, and bullion, so deposited with them. The Bank was then forbidden to increase the amount of securities in the issue department; but it might diminish them as much as it pleased, and increase them again to the limit defined, but no further. The banking department was forbidden to issue notes to any person whatever, except in exchange for other notes, or such as they received from the issue department in terms of the Act.

3. The proportion of silver bullion, in the issue department, on which notes were to be issued, was not at any time to exceed one-fourth part of the gold coin and bullion held at the time by the issue department.

4. All persons whatever, from the 31st August, 1844, were to be entitled to demand Bank notes in exchange for standard gold bullion at the rate of £3 17s. 9d. per ounce.

5. If any banker who, on the 6th May, 1844, was issuing his own notes, should cease to do so, it should be lawful for the Crown, in Council, to authorise the Bank to increase the amount of securities in the issue department to any amount not exceeding two-thirds of the amount of notes withdrawn from circulation.

6. Weekly accounts in a specified form were to be transmitted to Government and published in the next *London Gazette*.

7. From the same date the Bank was relieved from all stamp duty on their notes.

8. The annual sum payable by the Bank for their exclusive privileges should be increased from £120,000, as settled in 1833, to £180,000. And all profits derived from the Bank by the increase of their issues above the £14,000,000, as prescribed by the Act, shall go to the public.

9. After the passing of the Act, no person other than a banker who was lawfully issuing his own notes on the 6th May, 1844, should issue bank notes in any part of the United Kingdom.

10. After the passing of the Act, it was forbidden to any banker to draw, accept, make, or issue, in England or Wales, any bill of exchange, or promissory note, or engagement for the payment of money payable to bearer on demand, or to borrow, owe, or take up in England or Wales, any sum or sums of money, on the bills or notes of such banker, payable to bearer on demand, except such bankers as were on the 6th May, 1844, issuing their own Bank notes, who were allowed to continue their issues in such manner, and to such extent as afterwards provided. The rights of any existing firm were not to be affected by the withdrawal, change, or addition to any partner, provided the whole number did not exceed six persons.

11. Any banker who ceased to issue his own notes from any reason whatever, after the Act, was not to resume such issues.

12. All existing Banks of issue were forthwith to certify to the commissioners of stamps and taxes, the place, the name, and the firm, at and under which they issued notes during the twelve weeks next preceding the 27th April, 1844. The commissioners were then to ascertain the average amount of each bank's issues, and it should be lawful for such banker to continue his issues to

that amount, provided that on an average of four weeks they were not to exceed the average so ascertained.

13. If any two or more banks of issue had become united during that twelve weeks, the united bank might issue notes to the aggregate amount of each separate bank.

14. The commissioners were to issue in the *London Gazette* a statement of the authorised issues of each bank.

15. If two or more banks afterwards became united, each of less than six partners, then the commissioners might authorise them to issue notes to the amount of their separate issues. But if the number of the united bank exceeded six, their privilege of issuing notes was to cease.

16. If any banker exceeded his authorised issue he was to forfeit the excess.

17. Every bank of issue was to send a weekly account of its issues, which was to be published in the *London Gazette*.

18. The mode of taking the average was laid down, and bankers were to permit their books of accounts to be inspected by a Government officer properly appointed, and to make a return to Government once every year, within the first fortnight in January.

19. The Bank of England was allowed to compound with private banks of issue, to withdraw their notes, and issue Bank of England notes, for a sum not exceeding one per cent. per annum, up to the 1st August, 1856.

20. All banks whatever in London, or within 65 miles of it, were allowed after the passing of the Act, to draw, accept, or indorse bills of exchange, not being payable to bearer on demand.

21. The privileges of the Bank were to continue till twelve months' notice, to be given after the 1st August, 1855; and repayment of the public debts, and all other debts whatever.

23. Since the Act was passed, several private bankers have ceased from business; and in terms of the Act the Bank's power of issuing Notes on securities has been increased to £15,000,000. Consequently its total power of issuing Notes is now limited to £15,000,000 *plus* the amount of bullion held by the issue department.

It was supposed that these provisions ensured that the quantity of notes in circulation, *i. e., in the hands of the public*, would be

exactly equal to what a metallic Currency would have been, and that the outflow of bullion would by its own natural operation, have the mechanical effect of withdrawing Notes from the public to an equal amount. Having made these provisions, the framers of the Act supposed that they had taken out of the hands of the Bank all power of mismanaging the Currency, and that they might manage the banking department at their own discretion.

To say that the amount of Notes should only be equal to what a metallic Currency would have been, is a very intelligible proposition; and, as we have observed, several banks have been constructed on that principle. *But no bank constructed on this principle ever did, or by any possibility could do, banking business for profit.* These banks were pure banks of deposit: they did no discount business whatever: and if the Bank of England were forbidden to discount, there is no reason why it should not be reconstructed on this principle.

But if the framers of the Act of 1844 really believed that this Act carried out this theory into practice, no set of men ever committed a more manifest error. It is quite evident that the £15,000,000 of notes issued against public debt and securities are in direct violation of the "Currency Principle." How did the Bank obtain these securities? By purchase. Now, the purchase-money of these securities is in circulation, and the notes created on their security *as well.* Is it not clear that these 15 millions of notes are an *augmentation* of currency to that amount? If it be true that these 15 millions of notes are not a violation of the Currency Principle, then the very same argument would shew that the whole National Debt might be coined into notes, and then there would be no more paper in circulation than under a purely metallic currency!!

It is quite clear that this is pure and simple LAWISM; and, if we may coin the funds into money, we may just as well coin the land into money; and then where should we be?

24. Certainly, it is an excellent plan for every one to buy the funds with their cash, and then to be allowed to have it, too, in the form of notes. At all events, so long as this is permitted, let no one laugh at John Law.

But even this does not shew the full extent of the error of those who think that the Bank Act of 1844 enforces the "Currency

Principle." The banking department of the Bank does business like any other bank. That is, it purchases or discounts bills of exchange in the first instance, by creating Credit in its books; that is, it increases its liability in another form besides notes. This Credit is equally in excess of the metallic Currency. The reserve of notes and gold being the basis of the Bank's power of creating credit, of course, they must use their own judgment as to how far they may safely extend this, just as every other banker does. But any one who examines the Bank's returns will perceive that its liabilities payable on demand exceed its notes in reserve and gold many times.

Therefore, it is quite clear that those who seriously maintain that the Bank Act really carries out the "Currency Principle," must maintain this proposition:—

TWICE 15 millions + an indefinite number of millions } = 15 millions.

It has been shewn that in Banks constructed on the "Currency Principle," the Credit created is always exactly equal in quantity to the money deposited and kept in the Bank. But how does this matter stand with the Bank of England? Let us test this principle by any one of its published returns taken at random. On the 27th March, 1873, it appears that the Credit created by the Bank amounted to £61,021,187, and the specie held by the Bank amounted to £23,886,372, or about 2·6 to 1. If, therefore, it be maintained that the Bank is constructed on the "Currency Principle," it must also be maintained that 2·6 are equal to 1.

As a matter of pure arithmetic, therefore, it is perfectly manifest that the Bank Act completely fails to carry out the "Principle" it was intended to enforce. In fact, the framers of the Bank Act had a THEORY, and they passed an Act; but they never took the slightest pains to ascertain whether the Act corresponds with the Theory.

Now, we say nothing here as to the correctness, or the contrary, of the "Currency Principle," or as to the expediency of carrying it out; but to suppose that the Bank Act does really carry it out is simply one of the most astonishing delusions that ever deceived the public mind. Truly says Bastiat—"To be the dupe of another is not very pleasant; but to employ a vast apparatus to dupe oneself, to dupe oneself doubly, *and in a simple*

matter of arithmetic, is well calculated to abate a little one's pride in this enlightened age."

Every banker whatever who discounts a bill of exchange, violates the "Currency Principle. There is no mode whatever of carrying out the "Currency Principle" but by abolishing discount banking altogether; the banks constructed on this principle did no discount business.

25. Lord Overstone, in his evidence before the Committee of the House of Commons, said that it was a fundamental vice of the principle devised by the Directors in 1832, to carry out the doctrines of the Bullion Beport, that the gold might all leave the country without causing any diminution of the amount of Notes in the hands of the public: and we have seen that this assertion was completely verified in 1839.

It was, therefore, expressly declared that it was the purpose of the Act to cause a withdrawal of Bank Notes from circulation, *i. e., from the public,* exactly equal in quantity to the gold withdrawn from the Bank—in strict accordance with the "Currency Principle:" and it was supposed that if the Directors neglected this duty, the "Mechanical" action of the Act would compel them to fulfil it. It is now to be shewn how this expectation was fulfilled.

No occasion arose for testing the powers of the Act till April, 1847. The well known disasters of 1846 caused a steady drain of bullion from the Bank to commence in September, 1846. But the Bank made no alteration in the Rate of discount till January, 1847, when the bullion was below 14 millions, when it raised it to $3\frac{1}{2}$. Having lost another million in a fortnight, it raised discount to 4 per cent. But it made no alteration till it had lost three millions more, and then it raised discount to 5 per cent. Here we have exactly the same inveterate error committed by the Bank as on so many previous occasions—an immense drain of bullion, and yet none but the most feeble, inefficient, and puerile means taken by the Bank to stop it. But this pressure is an excellent example to test the alleged "mechanical" action of the Act. We shall now see, 1st, How the Bank was inclined to act on the principle; and 2ndly, Supposing they were disinclined to do so, how far the Act, by its self-acting principles, could compel them to do so. The following figures speak for themselves:—

1846.	Bank Notes.		Total Amount of Bullion.	Minimum Rate of Discount Per Cent.
	Held by Public.	Held in Reserve by the Bank of England.		
August 29	20,426,000	9,450,000	16,366,000	3
October 3	20,551,000	8,809,000	15,817,000	,,
November 7	20,971,000	7,265,000	14,760,000	,,
December 19	19,549,000	8,864,000	15,163,000	,,
1847.				
January 9	20,837,000	6,715,000	14,308,000	,,
——— 16	20,679,000	6,546,000	13,949,000	3½
——— 30	20,469,000	5,704,000	12,902,000	4
February 20	19,482,000	5,917,000	12,215,000	,,
March 6	19,279,000	5,715,000	11,596,000	4
—— 20	19,069,000	5,419,000	11,232,000	,,
April 3	19,855,000	3,700,000	10,246,000	,,
—— 10	20,243,000	2,558,000	9,867,000	5

26. These figures shew the utter futility of the idea that, as the bullion diminishes, the Act could compel a reduction of notes in the hands of the public, for the notes in circulation were within an insignificant trifle as large in amount when the bullion was only £9,867,000, as when it was £16,366,000. Consequently, nothing could be a more total and complete failure of the Act of 1844, on the very first occasion its services were required; and it was manifestly proved that the Act provided no effectual check against mismanagement on the part of the Bank.

Whence did this failure arise? From this very simple circumstance. The framers of the Act supposed that there is only ONE way of extracting gold from the Bank, namely, by means of its Notes: and that if people want gold they must bring in Notes, and, consequently, as the gold comes out, Notes must go in.

But, as a matter of simple banking business, there are Two methods of extracting gold from the Bank—namely, by Notes and CHEQUES. Those persons who have Credit in its books may go and present CHEQUES, and thus draw out every ounce of gold from the banking department, without a single Bank Note being withdrawn from the public.

In fact, instead of withdrawing the notes from the public, as was intended by the Act, the Directors threw the whole effect of

the drain of gold on their own reserves. And that happened in this way. The public has TWO methods of drawing gold from the banking department, namely; by Notes and Cheques; but the banking department has only *one* method of drawing gold from the issue department, namely, its Notes in reserve. And when the Bank felt a drain on its banking department for gold, it had to replenish it by obtaining a fresh supply from the issue department, at the same time giving up an exactly equal amount of Notes. And thus the whole drain fell on its own reserves.

No legislation can prevent this power of extracting gold from the Bank by means of Cheques. And thus is explained the complete failure of the "Mechanical" action of the Act to compel the Directors to carry out the "Currency Principle." The Directors were able to commit, and actually did commit, the very same error as they had done before the Act—which Lord Overstone had truly said was the fundamental vice of the Bank principle of 1832—and it was powerless to prevent them.

And this simple fact completely upsets the whole theory of the Act.

The fact is there are *two* leaks to the ship. The framers of the Act could only perceive *one;* and they only provided against one: and they were utterly astonished to find the ship rapidly sinking from the *other* leak they had forgotten!

27. Now as the Act notoriously and manifestly failed in this most important point, which was fully and candidly admitted by Sir Robert Peel, it becomes a natural inquiry to ask why it failed on the very point, which it was supposed it had rendered so secure. We reply to this that the Act failed because *it aimed at the wrong mark altogether. It wholly missed the true point in the case.*

In former times it was a mercantile dogma that the Exchanges could only be against the country in consequence of its being indebted to other countries. Nothing can be more striking than the vicious circle in which the Commercial witnesses argued before the Bullion Committee of 1810. They maintained with unflinching perseverance that the Exchanges could only be adverse, because the country was indebted: and as the Exchanges were adverse, they maintained that the country *must* be indebted (without the slightest inquiry into the fact) *because* the exchanges were adverse.

However, the Bullion Committee completely disproved this Commercial dogma; and they demonstrated beyond dispute, that the depreciated paper currency was the cause of the exchanges being *apparently* adverse; but that when this depreciated paper currency was reduced to its true value in gold, the Exchanges were in reality in *favour* of the country.

The Commercial witnesses maintained that when the indebtedness was paid off, the drain of bullion would cease of itself. But the Bullion Committee proved that with a paper currency so depreciated as Bank Notes then were, the drain would not cease until *all* the specie in circulation had left the country, which was amply verified.

The Bullion Committee thus shewed that there are *two* causes of a drain of bullion—1st, the indebtedness of the country; 2nd, a depreciated paper currency.

But in our *Theory and Practice of Banking*, we shewed that there is THIRD cause of a drain of bullion, and an adverse exchange, which, however, it might be known among commercial men had never yet, that we have seen, found its way into any commercial book whatever, and most certainly had never been brought forward prominently before the public in Currency discussions, as a cause of an adverse Exchange, wholly irrespective of any indebtedness of the country, or of the state of the Paper Currency.

The Principle is this—

That when the Rate of Discount between any two places differs by more than sufficient to pay the cost of transmitting bullion from one place to the other, bullion will flow from where discount is lower to where it is higher.

The old mercantile dogma was that Bills of Exchange can only be created to represent debts arising from the sale of merchandise: and if there are no debts, there will be no bills created: and that when bills are paid, no more bullion will go.

But, suppose (the state of Credit at both places being assumed to be equally secure) that the Rate of Discount at London was 2 per cent., while the Rate at Paris was 8 per cent., we shewed that bullion dealers would *fabricate* bills—not based upon any previous debts, or any mercantile transaction whatever—but simply for the sake of being discounted; that is, for the purpose of buying gold in London at 2 per cent., and selling it in Paris

at 8 per cent., and this operation will infallibly go on, and the drain of bullion will not cease until the Rates of Discount are so nearly equalised as to destroy the profits to be made by fabricating bills. Hence, if such a state of things, as is just supposed, arises, the Bank must, as an indispensable measure to preserve its own security, raise its Rate of Discount so as to destroy these profits, and so arrest the drain which is exclusively caused by the difference of the Rates in the two places.

Now, this practice causes no increase of Bank notes in circulation; on the contrary, they are not wanted: it is *gold* that is demanded and taken for export, and it steals out of the country noiselessly and unobserved. Also, if bankers in this country will perversely maintain the rate of discount lower here than in neighbouring countries, and, therefore, lower than the natural rate, persons in foreign countries send their debts or securities over here for sale, and the proceeds are remitted abroad. Consequently this practice causes an export of gold without diminishing the notes in circulation. Of all species of property, debts are the most easily transportable. The charges even on the transmission of gold are heavy compared to those on the transmission of debts. Debts to any amount can be transmitted from one country to another at the mere expense of the postage. Consequently, if the Americans can only get £85 per cent. for their debts in their own country, and they can get £96 per cent. in England, of course, they will send them here in vast quantities for realisation. This was eminently and notoriously the case in 1839, when the Bank of England kept its rate so perversely below the natural rate, and it was the cause that aggravated the drain of bullion to so alarming an extent. Hence we have shewn that beyond the causes universally known for an export of specie, namely, payments of genuine debts, there is another and most potent cause, whose importance has only recently been sufficiently recognised—namely, an unnatural depression of the rate of discount, below that of neighbouring countries.

Now, this principle was certainly not generally understood at the time the Bank Act of 1844 was passed; and in our work on Banking (1856) we stated this as a fundamental principle in the Currency—

"*An improperly low Rate of Discount, is in its practical effects, a depreciation of the Currency.*"

We therefore shewed that the only true method of striking at this demand for gold is by raising the RATE of DISCOUNT, and that the true great power of governing and controlling the Paper Currency, or Credit, is by carefully ADJUSTING THE RATE OF DISCOUNT TO THE STATE OF THE FOREIGN EXCHANGES, AND THE STATE OF THE BULLION IN THE BANK.

Now, the weak point in the Act of 1844, is that it takes no notice of this grand principle, it takes no precaution that the Directors of the Bank of England shall recognise it, and counteract it. On the contrary, it leaves them in full power to repeat their oft-committed error of causing a depreciation of the Currency, from an unnaturally low rate of discount.

This principle was extremely ill understood in 1856, when our work was published, and was very unpopular; but its truth was soon signally verified, and acknowledged to be true by the most competent authorities. After the great crisis of 1857, a Committee of the House of Commons was appointed to investigate its causes, and Mr. G. W. Norman, a Director of the Bank of England, and one of the most prominent and distinguished advocates of the "Currency Principle," and of the Bank Act of 1844, was asked—Q. 3529. "Is it not principally by raising the rate of interest that you check the amount of discounts which may be demanded of you?—Yes; we have found, *contrary to what would have been anticipated,* that the power we possess, and which we exercise, of raising the rate of discount, keeps the demand upon us within manageable dimensions. There are other restrictions which are less important. *The rate we charge for our discounts we find, in general, is a sufficient check.*"

In 1861, Mr. Goschen published his *Theory of the Foreign Exchanges,* in it he says—

"The efficacy of that corrective of an unfavourable state of the Exchanges, on which we have been dilating (*i. e.,* raising the rate of discount) has been most thoroughly tested by late events. Every advance in the Bank rate of discount has been followed by a turn of the Exchanges in favour of England, and *vice versâ,* as soon as the rate of interest was lowered, the Exchanges became less favourable."

This is now the acknowledged principle upon which the Bank of England is managed; and after our work was published in 1856, the Usury Laws in France were modified in order to enable

the Bank of France to adopt it, and, in fact, it is now universally adopted by every bank in the world.

In former times, when the only communication between different countries was by means of sailing ships and common roads, and therefore very slow, expensive, and uncertain, this principle, though actually true, could seldom be called into action, because the cost and delay of the transport of gold would far exceed any profit to be made in the difference of the Rates of Discount, in quiet times. It was like some mechanical force, which actually exists, but which is overpowered and prevented from producing any visible effect, in consequence of friction. But it did act in times of commercial crisis, when the rate became extreme. In 1799, enormous failures took place in Hamburg; discount rose to 15 per cent., and this rate immediately drew away gold from England.

But in modern times, since communications have been so much accelerated and cheapened, even since the Act of 1844, by means of railroads and steamers, this friction, as we may call it, has been immensely diminished; and this great principle is called into action with a much less difference between the Rates of Discount than at any former period. Bullion would probably take ten days, formerly, to go from London to Paris; it can go now in ten hours, and at probably the hundredth part of the expense. A difference of 2 per cent. between the rates of discount in London and Paris, will now draw bullion from one place to the other.

On the causes which compelled the Suspension of the Bank Act in 1847, 1857, *and* 1866.

28. The monetary pressure which we have been considering passed away for the time, but another much more severe came on in the autumn, which ended in a monetary panic, and on the 25th November, 1847, the Government authorised the Bank to exceed the limits allowed by the Act of 1844, if they considered it necessary so to do to restore commercial confidence. This suspension of the Act was perfectly successful; and on two similar occasions, in 1857 and in 1866, a similar course was followed with similar results. We have given a full narrative of the course of events preceding these panics in our *Theory and Practice of Banking*,

to which we must refer those who desire full information on the subject. We must now only examine the reasons which made this course necessary, and why it was successful.

Ever since the enormous development of the Credit system of commerce in modern times, great commercial failures have periodically recurred, producing the most wide-spread distress; and there have been two conflicting Theories as to what the action of the Bank ought to be in a Monetary Crisis.

1. One Theory maintains that in such a Crisis the Bank should liberally *expand* its issues, to support Commercial Credit. This Theory may be called the EXPANSIVE Theory.

2. The other Theory maintains that in such a Crisis the Bank should rigorously *restrict* its issues to their usual amount, or even contract them. This Theory may be called the RESTRICTIVE Theory.

Both these Theories have been tried in practice, and discussed by the most eminent authorities, and we may succintly examine the results.

The first great monetary crisis in modern times took place in 1763, after the termination of the seven years' war. This great disaster occurred at Hamburg and Amsterdam, where the "Currency Principle" was in full operation, and there was no Banking Credit whatever, except what represented specie. The failures began at Amsterdam among the principal merchants. The Bank had no power to assist them; and the resources of the private bankers were exhausted. Hearing that the Amsterdam bankers had determined to allow the merchants to fail, the Hamburg bankers wrote to them in the greatest alarm to say that if they did not support the merchants, they would instantly suspend their own payments. But by the time the letter reached Amsterdam, the merchants had already stopped. General failure followed at Hamburg, where no business was for some time transacted but for ready money. The failures were equally general throughout Germany. The Crisis extended to England, and Smith says that the Bank made advances to merchants to the amount of a million.

Thus we see that the "Currency Principle" was no protection whatever against a Monetary Crisis; and on this occasion the Bank acted on the EXPANSIVE Theory.

In 1772 the most severe Monetary Crisis in England since the South Sea scheme took place. On this occasion again the Bank came forward to support Commercial Credit.

In 1782, our unhappy war with America was ended; and the usual results of the termination of a great contest took place. The Bank had greatly extended its issues; and a very alarming drain of specie took place, which at one time threatened to compel them to stop payment. The Directors, however, considered that if they could only restrain their issues for a short period, the returns in specie in payment of the exports would soon set in in a more rapid manner than they went out. They determined, therefore, to make no communication to the Government, *but for the present to contract their issues* UNTIL THE EXCHANGES TURNED IN THEIR FAVOUR. The Bank felt the greatest alarm in May, 1783. They then refused to make any advances to Government on the loan of that year; but they did not make any demand for payment of their other advances, which were between 9 and 10 millions. They continued this policy up to October, when at length the drain had ceased from the country, and money had begun to flow in from abroad. At length, in the autumn, when the favourable signs began to appear, they advanced freely to Government on the loan, although at that time the cash in the Bank was actually lower than at the time they felt the greatest alarm. It was then reduced to £473,000.

The doctrine then stated by Mr. Bosanquet that guided the Directors was this—That while a drain of specie was going on, their issues should be *contracted* as much as possible; but that as soon as the tide had begun to give signs of ceasing, and turning the other way, it was then safe to extend their issues freely. This policy had been entirely successful, and the credit of the Bank was saved.

29. After the peace of 1782, the commercial energies of the country were greatly developed: to carry on this increased commerce a greatly enlarged currency was necessary; and as the monopoly of the Bank prevented solid banks being founded, innumerable tradesmen started up in every part of the country issuing notes. Burke says that when he came to England in 1750, there were not twelve bankers out of London; in 1792 there were

about 400: the great majority being grocers, tailors, drapers, and petty shop-keepers. In the autumn of 1792 very numerous failures took place in Europe and America. In January, 1793, the general alarm was greatly increased by the rapid progress of the French Revolution. Some great failures occurred in London in February: and soon the panic spread to the banks. Of these 100 stopped payment, and 200 were much shaken. The pressure in London was intense; and this naturally produced a demand on the Bank for support and discounts. But the Bank being thoroughly alarmed, resolved to contract its issues: bankruptcies multiplied with frightful rapidity. The Government urged the Bank to come forward to support Credit, but they resolutely declined.

In the meantime the most alarming news came from Scotland. The public banks were quite unable, with due regard to their own safety, to support the private bankers and commerce. Unless they received immediate assistance from Government, general failure would ensue. When universal failure seemed imminent, Sir John Sinclair remembered the precedent of 1697, when the public distress was allayed by an issue of Exchequer bills. A Committee of the House of Commons was appointed, who reported that the sudden discredit of so large an amount of bankers' notes had produced a most inconvenient deficiency in the circulating medium; and that unless a circulating medium was provided, a general stoppage must take place. They recommended that Exchequer bills to the amount of £5,000,000 should be issued under the directions of a board of commissioners appointed for the purpose, in sums of £100, £50, and £20.

No sooner was the Act passed than the Committee set to work. A large sum, £70,000, was at once sent down to Manchester and Glasgow, on the strength of the Exchequer bills, which were not yet issued. This unexpected supply, coming so much earlier than was expected, operated like magic, and had a greater effect in restoring credit than ten times the sum could have had at a later period.

When the whole business was concluded, a report was presented to the Treasury. It stated that the knowledge that loans might be had, operated, in many instances, to prevent them being required. The applications granted were 238, and the sum advanced was £3,855,624. The whole sum advanced was repaid;

two only of the parties assisted became bankrupt; all the others were ultimately solvent, and in many instances possessed of great property. A considerable part of the sum was repaid before it was due, and all the rest with the utmost punctuality. After all expenses were paid, the transaction left a clear profit to the Government of £4,348.

Contemporary writers all bear witness to the extraordinary effects produced. Macpherson says, that the very intimation of the intention of the Legislature to support the merchants, operated like a charm over the whole country, and in a great degree superseded the necessity of relief by an almost instantaneous restoration of confidence. Sir Francis Baring concurs in this view, and adduces the remarkable success of the measure as an argument to shew the mistaken policy of the Bank. After careful deliberation, the Bullion Report warmly approved of it; censured the proceedings of the Bank; and especially cite it as an illustration of the principle they laid down, that an enlarged accommodation is the true remedy for that occasional failure of confidence to which our system of Paper Credit is unavoidably exposed.

This occasion, therefore, is a most important example of the beneficial effects of the EXPANSIVE Theory in a monetary panic.

30. Towards the end of 1794 the exchanges began to fall rapidly, and in May, 1795, were so low that it was profitable to export bullion. While, however, the exchanges were so adverse, the issues of the Bank were immensely extended, from circumstances which are too long to state at length here, but which we have given elsewhere,[1] and which there is no necessity to detail, because the simple fact is enough that the issue of Bank Notes was greatly increased while gold was rapidly leaving the country. The Directors now became seriously alarmed for the safety of the Bank, and took the most rigorous measures to contract their issues. In April, 1796, the exchanges became favourable, and they continued to be so till February, 1797.

The excessive contraction of its issues by the Bank caused the greatest inconvenience to commerce, and a meeting of bankers and merchants was held to devise some means of relief. The

1 *Theory and Practice of Banking, Chap. VII.*, § 103—125.

failures among the country bankers in 1793 had caused an immense diminution of the country issues, and Thornton says that in the last three months of 1796 the issues of the Bank were no higher than they had been in 1782, with an amount of commerce many times larger than in that year. As the public could not get Notes, they made a steady and continuous demand for guineas: and, *although the exchanges were favourable to the country, and gold was coming in from abroad,* there was a severe drain on the Bank for gold. Political circumstances added to the alarm, and about the middle of February a stoppage of country banks became general. The panic reached London, and a general run began upon the bankers. Before this the Directors had used the most violent efforts to contract their issues. In five weeks they had reduced them by nearly £2,000,000. On the 21st January they were £10,550,830, on the 21st February they were £8,640,250. But even this gave no true idea of the curtailment of mercantile accommodation; for the private bankers were obliged, for their own security, to follow the example of the Bank. In order to meet their payments, persons were obliged to sell their stock of all descriptions, at an enormous sacrifice. The 3 per cents. fell to 51!

On Saturday, the 25th February, 1797, the specie in the Bank was reduced to £1,272,000, with the drain becoming severer every hour. The Directors now felt that they could hold out no longer: and on Sunday a Cabinet Council was held, and an order in Council issued directing the Bank to suspend payments in cash until the sense of Parliament could be taken on the subject. Accordingly, on Monday, the 27th, the cash being then reduced to £1,086,170, the Bank suspended payments in cash, and did not resume them partially till 1816, and completely till 1821.

But immediately this was done, they enlarged their accommodation liberally; within a week they increased their issues by two millions, and the relief was very great. A meeting of 4,000 merchants and bankers agreed to support the credit of the Notes.

The most eminent authorities afterwards severely censured the management of the Bank. Thornton said that the excessive contraction of Notes had shaken public credit of all descriptions, and had caused an unusually severe demand for guineas: that the

Bank ought to have extended its issues to supply the place of the country Notes which were discredited. Boyd was clearly of opinion the excessive restriction of Notes was the chief cause of the forced sale and depreciation of the public securities. In 1810 the Governor of the Bank said, that after the experience of the policy of restriction, many of the Directors repented of the measure: and the Bullion Committee explicitly condemned the policy of the Bank, both in 1793 and 1797.

Nothing, in short, could be more unhappy than their regulation of their issues. When the exchanges were violently adverse, so that it was very profitable to export gold, they enlarged them to an extravagant extent: and when the exchanges were extremely favourable, so that gold was flowing in, they contracted them with merciless severity. The issues, which were £14,000,000 when the exchanges were against the country, were reduced to £8,640,250 when they had been for several months eminently favourable. The entire concurrence of the evidence shews that it was this excessive restriction of credit which caused the severe demand for gold.

And now we see the practical results of the two policies: when all commercial and banking credit was on the verge of universal ruin, it was saved and restored by the EXPANSIVE Theory in 1793: in 1797 the RESTRICTIVE Theory was carried out to the bitter end, AND THE RESULT WAS THE STOPPAGE OF THE BANK.

A consideration of all these circumstances induced the Bullion Committee to condemn the RESTRICTIVE Theory in the most emphatic terms; and all the greatest mercantile authorities of that period, including Peel himself, as we have shewn, in 1819, entirely concurred in these doctrines: and they said that no limitation of the Bank's power of issue could ever be prescribed at any period, however remote. That period, however, came in 1844.

The next great crisis was in 1825. Ever since the beginning of 1824 there was a continual drain of bullion, which the Bank took no means to stop. It fell from 13¾ millions in March, 1824, steadily and continuously, to barely 3 millions in November, 1825, when every one felt a crisis to be impending. The papers

discussed the policy of the Bank, and it was generally expected that it would rigorously contract its issues. The panic began on Monday, the 12th of December, 1825, with the fall of Pole, Thornton & Co., one of the principal city banks, which drew down with them forty country banks. A general run began upon all the city bankers. For three days the Bank pursued a policy of the most severe restriction. Mr. Huskisson said that during 48 hours it was impossible to convert into money, to any extent, the best securities of the Government. Exchequer bills, Bank Stock, East India Stock, as well as the public funds, were unsaleable. At last, when universal stoppage was imminent, the Bank completely reversed its policy. On Wednesday, the 14th, it discounted with the utmost profuseness. Mr. Harman said—"We lent by every possible means, and in modes we had never adopted before; we took in stock as security; we purchased Exchequer bills: we made advances on Exchequer bills: we not only discounted outright, but we made advances on deposits of bills of exchange to an immense amount: in short, by every possible means consistent with the safety of the Bank, and we were not, on some occasions overnice; seeing the dreadful state the public were in, we rendered every assistance in our power." Between Wednesday and Saturday the Bank issued £5,000,000 in Notes, and sent down to the country a large box of £1 notes, which they accidentally found. This bold policy was crowned with the most complete success; the panic was stayed almost immediately, and by Saturday was over.

The circumstances of this crisis are the most complete and triumphant example of the truth of the principles of the Bullion Report, and of the EXPANSIVE Theory: and signally vindicate the wisdom of Peel in 1819, when he refused to adopt the RESTRICTIVE Theory, and impose a numerical limit on the Bank's issues.

The next crisis was in 1837: but the Bank foreseeing it, judiciously anticipated it, and made the most liberal issues to houses which required it. By thus adopting the EXPANSIVE Theory in good time, nothing more occurred than a severe monetary pressure, which was prevented from deepening into a crisis entirely by the judicious conduct of the Bank.

31. Up to this period Sir Robert Peel had passed through two phases of opinion with regard to the Currency Question. When comparatively a young man, he had formed one of that famous majority of the House of Commons which had contumeliously rejected the Bullion Report, and voted that a £1 note and 1s. were exactly equal to £1 and 7s., or that 21 was equal to 27. In 1819 he was appointed Chairman of the Committee of the House of Commons, and he then completely adopted the doctrines of the Bullion Report, and became a disciple of the school of Horner, Huskisson, Thornton, and Ricardo. But in 1840 a new school of Currency Theorists had arisen, of whom the most distinguished were Mr. Jones Loyd, now Lord Overstone, Colonel Torrens, and others. These influential persons saw that notwithstanding the undoubted truth of the doctrines of the Bullion Report, there was some incurable vice in the management of the Bank of England, which had, beyond all dispute, greatly conduced to prepare the way for the great commercial crisis of 1825, by its extravagant over-issues of notes. They found that the Bank was totally unable to manage itself on the principles it professed to be guided by. They traced the original source of all Commercial Crises to the excessive issues of Notes by banks. They adopted the definition of "Currency" as being Money and Bank Notes, payable to bearer on demand only, to the exclusion of all other forms of Paper Credit, and they maintained that the only true principle of issuing notes was that when notes were issued they should be exactly equal in amount to what the specie would be if there were no Notes.

These doctrines being strenuously urged by a number of able and influential persons, completely converted Sir Robert Peel, who now entered upon a *third* phase of opinion with regard to the Currency Question, and by the Bank Act of 1844 he endeavoured to give effect to these doctrines.

Sir Robert Peel, therefore, determined now to adopt the RESTRICTIVE Theory, and to impose by law what every eminent authority of former times, including himself, had solemnly condemned—a *numerical* limit on the issues of the Bank.

> "Sic volvenda ætas commutat tempora rerum,
> Quod fuit in pretio, fit nullo denique honore,
> Porro aliud succedit, et e contemptibus exit,
> Inque dies magis appetitur, floretque repertum
> Laudibus, et miro'st mortaleis inter honore."

The Bank Act was passed amid general applause, but, as said above, on the very first occasion on which its powers were tested, in April, 1847, it completely failed to compel the Directors to carry out its principle, and one-third of its bullion ebbed away, without any appreciable diminution of the amount of its notes in circulation.

But in October, 1847, a far severer crisis took place. The Bank made immense advances to other banks and houses to prevent them from stopping payment. But numerous Banks and Commercial Houses did stop payment, and the resources of the Bank were exhausted. At last, after repeated deputations to the Government to obtain a relaxation of the Act, and with the stoppage of the whole commercial world imminent, the Government authorised the Bank to issue at discretion. And what was the result? The panic vanished in 10 minutes! No sooner was it known that notes might be had if necessary, than the want of them ceased. The whole issue of Notes, in consequence of this letter, was only £400,000, and the legal limits of the Act were not exceeded.

Thus, on this occasion again, the RESTRICTIVE Theory wholly failed; and the EXPANSIVE Theory saved the country, and was the only means of saving the Bank itself from stopping payment.

The next great crisis was in November, 1857, which was far more severe, as regards the Bank itself, than that of 1847. On the 12th November, 1857, the Bank closed its doors with the sum of £68,085 in Notes; £274,953, in gold; and £41,106 in silver; being a total sum of £387,144! Such were the resources of the Bank of England to begin business with on the 13th! Truly said the Governor, it must entirely have ceased discounting, which would have brought an immediate run upon it. The bankers' balances alone were £5,458,000. It is easy to see that the Bank could not have kept its doors open for an hour.

On the evening of the 12th the Government sent a letter to the Bank, authorising them to issue Notes at their discretion, but not at a less rate than 10 per cent.; and next morning the panic, as before, passed away.

Thus on this occasion, again the RESTRICTIVE Theory wholly failed: and the EXPANSIVE Theory saved the country: and was the only means of saving the Bank itself from stopping payment.

The next great crisis was in 1866, which was still more severe. Unfortunately, no investigation was held respecting it, so that there is no reliable account of its circumstances. But speculation had exceeded all due bounds. On the 10th of May there was a general run upon all the London banks. It was said, but we cannot say with what truth, that one great bank alone paid away £2,000,000 in six hours. After banking hours it became known that the great discount house of Overend, Gurney & Co. had stopped, with liabilities exceeding ten millions—the most stupendous failure that had ever taken place in the city. The result of such a catastrophe was easily foreseen; not another bank could have survived the next day; and that evening the Government again authorised the Bank to issue at discretion, at not less than 10 per cent. The Bank advanced £12,225,000 in five days: but the panic passed away.

Thus again the RESTRICTIVE Theory wholly failed: the EXPANSIVE Theory saved the country, and was the only means of saving the Bank itself, as well as every other bank, from stopping payment.

Thus we see the entire failure of Sir Robert Peel's expectations. He took away the power of unlimited issues from the Bank, and imposed a rigorous numerical limit on its powers of issue, under the hope that he had prevented the recurrence of panics. But the panics recurred with precisely the same regularity as before; and, therefore, in this sense too, the Act has failed: and when panics do occur, it is decisively proved that it is wholly incompetent to deal with them.

32. It has been seen that it is a complete delusion to suppose that the Bank Act carries out the "Currency Principle." It might be supposed, perhaps, that if it did really carry out the "Currency Principle," it might prevent panics arising. General experience, however, entirely negatives this view. In 1764, the most terrible Monetary Crisis which had up to that time occurred, took place at Amsterdam and Hamburg, where the banks were really constructed on the "Currency Principle."

A decisive example of this took place at Hamburg in 1857. A similar Monetary Crisis took place there, as here, and the Bank being constructed on the "Currency Principle," had no power to issue Notes to support Credit. The Magistrates were obliged to

issue City Bonds to support the credit of the merchants, exactly as the Government had issued Exchequer bills in England in 1793. Here also the RESTRICTIVE Theory wholly failed, and it was found necessary to adopt the EXPANSIVE Theory to avert universal failure.

These disasters took place where there was no Currency at all, but what represented bullion: and they are conspicuous examples that panics occur just as readily under a purely Metallic Currency as under a Paper Currency.

The experience of every other country exactly confirms the experience of England. At Turin the bank was constructed on some principle of limitation: but in 1857, during a monetary panic, it was found necessary to suspend its constitution, and allow it to issue Notes to support Credit.

The very same thing was conspicuously proved in 1873. In Austria, in North Germany, and in America, the Banks were all constructed on some analogous principle of limitation on their issues. But in the severe monetary panic in each of these countries, it was found necessary to suspend their constitutions, and authorise them to issue at discretion to support commercial Credit.

Thus universally throughout the world it is proved by abundant experience, that the RESTRICTIVE Theory cannot be maintained after a monetary panic has reached a certain degree of intensity; and that it is absolutely necessary to adopt the EXPANSIVE Theory to avert universal failure.

33. The supporters of the Act of 1844 stenuously maintain that it is the complement of, and in strict accordance with the principles of the Act of 1819, and the Bullion Report. But such statements are utterly incorrect: and the following are the fundamental differences of principle between them—

I. The Bullion Report declares that the mere *numerical* amount of notes in circulation, at any time, is no criterion whether they are excessive or not.

The Theory of the framers of the Act is that the Notes in circulation ought to be exactly equal in quantity to what the gold coin would be if there were no Notes: and that any excess of Notes above that quantity is a *depreciation* of the Currency.

Is this principle of the supporters of the Act in accordance with the principle of the Bullion Report?

II. The Bullion Report declares, and the supporters of the Act of 1819 maintained, that the sole test of the depreciation of the Paper Currency is to be found in the Price of Gold Bullion, and the state of the Foreign Exchanges.

Ricardo says[1]—"The issuers of paper money should regulate their issues solely by the price of bullion, and never by the quantity of their paper in circulation. The quantity can never be too great nor too little, while it preserves the same value as the standard."

According to the supporters of the Act of 1844, the true criterion is whether the Notes do or do not exceed in quantity the gold they displace.

Is the doctrine of the supporters of the Act of 1844 in accordance with the principles of the Bullion Report, and of the Act of 1819?

III. It was proposed to the Bullion Committee to impose a positive limit on the issues of the Bank, to curb their powers of mismanagement. The Bullion Report expressly condemns any positive limitation of its issues: and Peel in 1819, and in 1833, fully concurred in this condemnation.

The Bank Act of 1844 specially limits the issues of the Bank.

Does the Bank Act of 1844 coincide with the principles of the Bullion Report and the the doctrines of Peel in 1819 and 1833?

IV. The Bullion Report, after discussing the most important monetary crises which had occurred up to that time, expressly condemns the RESTRICTIVE Theory in a monetary panic, and says that it may lead to universal ruin: and recommends the EXPANSIVE Theory.

The Bank Act enacts the RESTRICTIVE Theory by Law: and prevents the EXPANSIVE Theory from being adopted.

Does the Bank Act of 1844 agree with the doctrines of the Bullion Report, and of Peel in 1819 and 1833, on this point?

In 1793 the Bank adopted the RESTRICTIVE Theory; and when all commerce was on the brink of ruin, the Government,

[1] *Proposals for an Economical and Secure Currency*, § 3.

by issuing Exchequer bills, adopted the EXPANSIVE Theory, and commerce was saved.

In 1797 the RESTRICTIVE Theory was carried out to the end, and the result was the *stoppage of the Bank.*

In 1825 the RESTRICTIVE Theory was adopted for three days, and when commerce was again on the brink of ruin, it was suddenly abandoned; the EXPANSIVE Theory was adopted, and commerce was instantly saved.

In 1836 a great crisis was imminent: the Bank, foreseeing it, adopted the boldest measures before it came on, and made immense advances to sustain commercial credit: the policy was successful, and averted a general panic.

Peel, in introducing his measure of 1844, said that we must never again have such discreditable occasions as 1825, 1836, and 1839; but since 1844 we have had 1847, 1857, and 1866. On each of these occasions the RESTRICTIVE Theory was enacted by Law: and on each occasion the Government was obliged to come forward and authorise the Bank to break the Law, to abandon the RESTRICTIVE Theory, and adopt the EXPANSIVE Theory. And by so doing universal ruin was averted, and the Bank itself saved from stopping payment.

Experience, therefore, has indisputably proved that the Bullion Report was framed with truer wisdom and scientific knowledge of the Principles of Paper Currency than the Bank Act of 1844. The only deficiency in the Report was that it failed to point out the proper means by which the Paper could be kept at par with gold. But the true principle of controlling the Paper Currency is now well understood to be by adjusting the RATE OF DISCOUNT by the Foreign Exchanges, and the state of the bullion in the Bank.

Examination of the Arguments alleged for maintaining the Bank Act.

34. It has now been clearly shewn that the Bank Act has completely failed both in THEORY and PRACTICE. It has been shewn that it is based on a DEFINITION of the word "Currency," which is entirely erroneous in Commercial Law, and in Philosophy —that it professes to adopt a Theory of Currency, which it has entirely failed to enforce—that if the Directors choose, they can mismanage the Bank quite as easily under the Act as before

it, and that the pretended "Mechanical" action of the Act wholly failed to prevent them doing so—that the Act was expressly framed with the expectation that it would prevent commercial panics, and that it has wholly failed in doing so: and hitherto panics have recurred with the same regularity as before—and furthermore, although the Act is in no sense whatever the original cause or source of these crises, yet when they *do* occur, and they reach a certain degree of intensity, the operation of the Act, by visibly limiting the means of assistance, deepens a severe monetary pressure into a panic, which can only be allayed by its suspension, and a violation of its principles.

In every one of these respects the Bank Act has completely failed: and in regard to these things its credit and reputation is utterly dead and gone. It is, therefore, necessary to examine fairly the arguments alleged in its favour, and the reasons urged why it should still be maintained.

The supporters of the Act, allowing that it has failed in some respects, yet maintain that the Directors having committed the same mischievous errors as they had done before it, it arrested their mis-management much sooner than would otherwise have been the case; and that when the panic did occur, it was only through the Act that the Bank had 6 millions of gold to meet the crisis; and that by this means the convertibility of the Note was secured.

So far as regards the crisis of 1847, it must be admitted that there is much force and truth in this argument. The Directors at that date shewed that they had not yet acquired the true principles of Banking, and it must be conceded that it was entirely owing to the Act that they were checked in their mistaken policy while there was still six millions of gold in the Bank.

But the same ground of censure did not apply to the crisis of 1857. In the interval between 1847 and 1857, the Directors really at last grasped the true method of controlling the Paper Currency by means of the Rate of Discount. The truth of this principle was probably more enforced upon their attention by the limitation imposed by the Act than it would otherwise have been. It has never been alleged that the crisis of 1857 was in any way due to the Act. But it is a matter of positive certainty that since that date the Bank has fully recognised and adopted the

the principle of governing the Paper Currency by means of the Rate of Discount. The same rule has been adopted by the Bank of France, and this is now the recognised principle by which every Bank is managed. Certainly since 1857 there has not been a breath of blame on the general management of the Bank. Granting every merit which can fairly be due to the Act, that it has compelled the recognition and adoption of this principle some years earlier than it otherwise would have been, it may be said that the Act has now fulfilled its purpose. It has done all the good that it can do. The Directors now perfectly understand, and have for the last 17 years conducted the Bank with the greatest success on sound principles. Having, therefore, accomplished this great purpose, the Act has done its work, and has ceased to be necessary: and its operation at other most important times being proved to be injurious by the most overwhelming evidence, it may now be safely and advantageously repealed—so far at least as regards the limitation of its power of issue. And the reason for the expediency of this change is this—

Under the present system of Commercial Credit, there must be some Source with the power of issuing undoubted Credit to support solvent Commercial Houses in times of Monetary Panic.

It has been conclusively shewn in the preceding remarks, that it is entirely futile to expect that Commercial Crises can be prevented, and that they occur with precisely the same violence in places where there is a purely metallic currency as anywhere else. Hence the illusions in this respect, on which the Act was founded, are now completely vanished.

In all cases, houses which are clearly insolvent should not be supported; they ought to be compelled to stop without any hesitation. To support such houses is a fraud upon their creditors. But under our complicated system of commerce, the Credit of even the most solvent houses is so intertwined and connected with others, that no one can tell how far any house, even of the highest name, is solvent. Consequently, every one is affected by this universal discredit. Many houses which are really solvent, may have their assets locked up in some form which is not readily convertible. Under such circumstances it is absolutely indispensable, to prevent universal ruin, that there should be some source to

afford undoubted credit to houses which can prove their solvency. And there are but two sources from which such credit can be issued—the Government and the Bank of England.

In 1793, the Bank resolutely refused to support Commercial Credit, and the Government were obliged to assist solvent houses with Exchequer bills, and this saved the commercial community from ruin. In 1797, the Bank also refused to support commerce, and the result was its own stoppage. After the stoppage, however, it largely extended its issues, and commerce was relieved.

In every commercial crisis since 1797, however sternly the Bank has adopted the RESTRICTIVE Theory at first, it has ultimately been driven to abandon it, and adopt the EXPANSIVE Theory. In 1825, while the Bank peristed in the RESTRICTIVE Theory, some eminent bankers stopped payment with assets worth 40s. in the pound. Two days afterwards the Bank changed its policy, and issued notes with the most profuse liberality, and the panic vanished. If the Bank had adopted this principle at first, and assisted those bankers who were really solvent, they would have been saved from stopping payment.

The very same principle was decisively proved in 1847, 1857, and 1866; the RESTRICTIVE Theory was in those years enforced by law. But no Government could maintain the Act and the RESTRICTIVE Theory to the bitter end, and face the consequences of producing universal ruin in pursuance of a Theory, which the most distinguished authorities of former times had unanimously condemned.

It is, therefore, irrefragably proved by the unanimous opinion of the most eminent commercial authorities, and the clear experience of 100 years, that the RESTRICTIVE Theory in a commercial crisis is a fatal delusion; and that when a commercial panic is impending, the ONLY way to avert and allay it is to give prompt, immediate, and liberal assistance to all houses who can prove themselves to be solvent; at the same time allowing all houses which are really insolvent to go. Universal experience proves that this is the *only* means of separating the sound from the unsound, and averting general ruin by preserving the former.

As a matter of fact it is perfectly well known to all bankers that an excessive restriction of credit *produces* and *causes* a run for gold.

Sir William Forbes, in his interesting *Memoirs of a Banking House*, says of the crisis of 1793:—"These proceedings, which obviously foreboded a risk of hostilities, were the signal for a check on mercantile credit all over the kingdom; *and that check led by consequence to a demand on bankers for the money deposited with them*, in order to supply the wants of mercantile men."

The Bullion Report expressly attributes the stoppage of the Bank in 1797 to the merciless restriction of Credit.

In 1857, discounts had ceased at the various banks, and a general run was commencing upon them, when the Treasury letter came: this allayed the panic, and stopped the run.

In 1866, matters were a great deal worse. In consequence of the restriction on Credit, a most severe and general run took place on all the London bankers. The sum paid away during the panic can probably never be known, but it was something perfectly fabulous. And this general run upon the bankers was certainly caused and produced by the excessive restriction of Credit, caused by the Bank Act.

The result of such an Act was most distinctly predicted by Henry Thornton, one of the joint authors of the Bullion Report, in his treatise on the Paper Credit of Great Britain, published in 1802. He says:—

"Two kinds of error on the subject of the affairs of the Bank of England have been prevalent. Some political persons have assumed it to be a principle, that in proportion as the gold of the Bank lessens, its paper, or, as is sometimes said, its loans (for the amount of the one has been confounded with that of the other), ought to be reduced. It has been already shewn, THAT A MAXIM OF THIS SORT, IF STRICTLY FOLLOWED UP, WOULD LEAD TO UNIVERSAL FAILURE."

The Bank Act of 1844 was constructed on this precise principle, and Thornton's prediction has been strictly verified.

Seeing, then, that it is a matter of absolute demonstration that it is indispensably necessary that there must be some source having the power to issue solid Credit to support solvent houses in Monetary Panics, it only remains to consider whether that source should be the Government, or the Bank—and very convincing reasons shew that it ought to be the Bank rather than the Government.

Such a duty is quite out of the usual line of the Government.

They must issue a Special Commission to investigate the solvency of those merchants who ask for assistance. Such a Commission would never be appointed until matters had become very severe, and much suffering would be caused by the unnecessary delay.

But such a thing is the ordinary and every day business of the Bank. The merchant simply goes in the ordinary way of business to the Directors, satisfies them of his solvency, gives the necessary security, and receives the assistance without delay.

These considerations, as well as others that might be adduced, shew that the proper source to have this power is the Bank of England, and not the Government.

35. Some persons, however, might suppose that such an issue of notes might turn the Foreign Exchanges against the country. It was formerly supposed, and the idea pervaded Sir Robert Peel's speech, that the Foreign Exchanges are mainly influenced by the numerical amount of Notes issued. But in modern times it has been proved that the *Rate* of *Discount* is an infinitely more powerful method of acting on the Exchanges than the amount of Notes. And this may be said to be a new discovery since Sir Robert Peel's speech; for there is not a trace of the principle to be found in it. In former times, certainly, when there were multitudes of Banks issuing torrents of Notes, these Notes lowered the Rate of Discount, and drove bullion out of the country. But under the modern system, when these issues have been happily suppressed, all danger on this score has vanished: and under present circumstances no issues are excessive which *do not lower the Rate of Discount.*

The doctrine laid down in the Bullion Report, and by all the most eminent authorities of that period, was, that the true criterion of the proper quantity of Paper Currency was not its numerical amount, but the state of the Foreign Exchanges and the Market Price of Gold Bullion. This doctrine was true so far as it went: but unfortunately they never investigated the correct method of keeping the Paper Currency in its proper state. The principal method thought of until after Sir Robert Peel's time, was simply diminishing its numerical amount. It is true that raising the Rate of Discount was reckoned among the subsidiary

methods of curbing it, but so little was its true importance understood, that it was not even mentioned by Sir Robert Peel. Since his time, however, it has been demonstrated by argument, and proved by conclusive experience, that it is the true SUPREME POWER OF CONTROLLING THE EXCHANGES and the PAPER CURRENCY, and that all other methods are insignificant compared to it. And since the Directors now thoroughly understand and act upon this principle, they may be entrusted with unlimited powers of issue.

36. Some able authorities, however, are of opinion that the Act should be maintained, as it strengthens the hands of the Directors of carrying out this principle, and enforcing the rule. That without the Act, commercial pressure upon them might sometimes be too strong to resist. Whatever force there may be in this argument, it will be found that the other arguments completely outweigh it; and in fact such an argument naturally leads us to consider the constitution of the Directorate itself.

By a remarkable custom, professional bankers are excluded from the Directorate of the Bank, which is exclusively composed of merchants. It has long been recognised that Commercial Credit and Banking Credit are of two distinct natures, and in many respects essentially conflicting and antagonistic. The same persons should not carry on both kinds of business; great bankers should not be merchants, and great merchants should not be bankers. The DUTY of a banker frequently conflicts with, and is antagonistic to, the INTEREST of a merchant. A banker's duty is to keep himself always in a position to meet his liabilities on demand: and when there is a pressure upon him it is his duty to raise the price of his money. But the INTEREST of a merchant always is to get accommodation as cheap as possible. Hence, as the Directors emanate exclusively from the Commercial body, the INTEREST of the body from which they come, has been frequently opposed to their DUTY as Directors of the Bank. And, formerly, it cannot be denied, that their sympathy for the body to which they belonged has interfered with their proper course of action as Directors of the Bank, and has been the cause of many errors.

The whole principles of the subject have now been brought to strictly scientific demonstration. If, therefore, the Directors find

themselves unable to withstand Commercial pressure, and fulfil their undoubted duty, it would seem to raise the question whether some modification of the constitution of the Directorate might not be desirable, and whether a certain portion of them, at least, should not be as unconnected with commerce, as private bankers are. There are very good reasons why they should not be *exclusively* taken from the Commercial body.

The overwhelming weight of practical considerations is in favour of restoring the Bank to its original condition, and abolishing the separation of the two departments; which has been shewn was intended to carry out a particular THEORY, but which it wholly fails to do. For while times are quiet, or even during a tolerably severe monetary pressure, the Act is wholly in abeyance, it is utterly inoperative. But when a real commercial crisis takes place, and it totally fails to prevent these, as it was expected to do —and when the crisis has deepened beyond a certain degree of intensity, then the Act springs into action with deadly effect. It prevents by Law the only course being adopted, which the unvarying experience of 100 years has shewn to be indispensable to avert a panic, namely, a timely and liberal assistance to solvent houses: then follows wild panic; and if the Act were rigorously maintained, then universal ruin.

There is also another circumstance of the greatest importance to be observed, but which has not obtained sufficient notice. By the Bank Act of 1833, Bank Notes are made legal tender *only while the Bank pays its Notes in gold on demand.* As soon as it ceases to do so, no one can be compelled to take them, any more than any other bank notes. Consequently, if the Bank were compelled to stop payment in a panic, by enforcing the Bank Act of 1844, to its last extremity, as it most certainly would have done in 1847, 1857, and 1866, its Notes immediately cease to be legal tender by the Bank Act of 1833, and their holders could not compel any one to receive them in payment of a debt.

37. In the debate on Mr. Anderson's motion in the House of Commons, on the 25th March, 1873, the Chancellor of the Exchequer seemed to turn commercial panics into ridicule. He said that we never hear of military panics or naval panics; why then should we hear of commercial panics? He seemed to consider English merchants as an inferior breed of men to English

soldiers and English sailors. For once the Right Honourable Gentleman's acumen was at fault. The analogy is wholly erroneous. It is the duty of military and naval men to face death; it is their profession. But it is not the duty of commercial men to face ruin with equal equanimity. Under the modern system of commerce, discount is as necessary to commercial existence as air is to the life of the body. When the whole commercial community sees the very means of their existence rapidly diminishing before their eyes, they naturally rush to obtain Notes while they can, and on such occasions no raising of the Rate of Discount can check the demand. If they cannot get Notes, they run for Gold. Such a state of things naturally and inevitably produces, and invariably will produce a panic. The analogy of the Black Hole of Calcutta is much more true. When 150 wretched men were shut up for a whole night, in a tropical climate, in a room less than 20 feet square, with only one small window to admit air, they naturally fought and struggled to get near it to preserve their existence. Under such circumstances there was, and there always would be a panic. So in the commercial world, when they see the very means of their existence rapidly diminishing before their eyes, they naturally fight and struggle to get possession of it, and they always will do so under similar circumstances. If the "Currency Principle" were carried out to the last extremity in a Monetary Panic, the survivors of the commercial community would not be proportionately more numerous than the survivors of the Black Hole of Calcutta.

Mr. Gladstone also, in the same debate, said that the Government would consider the subject, to see if any amendment could be introduced into the Act. But he said that such an amendment would take the Act as its basis of departure, and would be to strengthen and carry out its principle. But no human ingenuity could do that. The Currency Principle is that 1 is equal to 1. If the present constitution of the Bank be supposed to carry out the Currency Principle, then 2·6 must be held to be equal to 1. There is no possible method of carrying out the "Principle" of the Act, except by taking away all the Bank's powers of making profits.

The true object of the Act is to insure the convertibility of the Bank Note. But the Principle of the Act, or the machinery devised for that purpose, is merely a means to that

end, and it has been proved to be defective. A better means of attaining the object of the Act has been ascertained and demonstrated to be true by the strictest scientific reasoning, as well as by abundant experience, since the passing of the Act, which is acknowledged to be efficacious, and, therefore, the Act is no longer necessary. The necessity of passing the Act was a deep discredit to the Directors of the Bank. It was a declaration that they were not competent to manage their own business. But now that they have shewn that they are perfectly able to do so, it is no longer necessary. It may be sometimes necessary to put a patient into a strait waistcoat; but when the patient is perfectly recovered, and is restored to his right mind, the strait waistcoat may be removed—especially as it is found that, under certain circumstances, the strait waistcoat not only strangles the patient, but scatters death and destruction all around.

38. We thus see that Sir Robert Peel was greatly deceived in his expectation that the limitation of the Bank's power of issue would prevent commercial crises. On this occasion he erred, as so many others have erred, in Economics, by too limited a consideration of facts. It is true that on *some* occasions the Bank had fostered an over-spirit of speculation by too profuse an issue of notes. But commercial crises occur from other causes besides: they have occurred when there was no profuse issue of notes, and in places where there were no notes beyond bullion. Whenever there are expected to be great fluctuations in prices from whatever cause arising—either from great scarcity or from great abundance—from the transition from peace to war, or from war to peace—from the discovery of new profitable openings of every description—from great disturbance in the usual course of trade—the speculative or gambling propensity is sure to be called forth, and lead to a pressure more or less intense. In 1694 the first joint stock mania took place, when there was no excessive credit. In 1720 there was no excessive issue of notes. In 1763 there was no excessive issue of notes, and the great commercial crisis of that year took place at Amsterdam, where the "Currency Principle" was in full operation. In 1772 there were excessive issues of notes, which greatly conduced to the crisis. In 1783 the crisis seems to have been due to the transition from war to peace. Before 1793 there were excessive

issues of notes by the miserable traders whom the monopoly of the Bank permitted to grow up as bankers. Previous to 1797 the Bank itself had made excessive issues, compelled thereto by Pitt. In 1808 the Bank greatly fostered the spirit of speculation. In 1824 and 1825 the Bank was far too long before it contracted its issues. So also in 1836 and 1839. But in 1847, 1857, and in 1866, the great crises were in no way whatever attributable to excessive issues. In 1847 it was excessive railway speculation. In 1857 it was due to a series of causes wholly irrespective of issues, and in that year the severity of the crisis at Hamburg, where the "Currency Principle" is carried out, and was so great that the Government was obliged to come forward to create a solid credit to support solvent houses. In 1866 there were no excessive issues of notes. The most bigotted opponent of the Bank could by no possibility say that the crises of 1857 and 1866 were in any way whatever attributable to the Bank, or could, by any possibility, have been averted by any management of the Bank.

The crisis of 1808 was due to the sudden opening of the South American markets. That of 1825 to the anticipated profits on working foreign mines. That of 1836 partly to the rapid extension of Joint Stock Banks. That of 1847 to excessive railway speculations. That of 1857 to excessive trading especially in America. That of 1866 to the too rapid extension of Financial Companies on the limited liability principle. Hence we see that a law made on the supposition that all crises are caused by a single circumstance, and whose operation is only adapted to that cause, must necessarily fail.

Sir Robert Peel was further in error in saying, that during periods of commercial crisis private persons make advances. It may, perhaps, happen that here and there a private person may assist a friend, but, as a general rule, it is wholly without foundation. It was observed, before the passing of the Act, that in times of commercial pressure there was a general tendency to hoard. This was observed in 1825, in 1836, and in 1839. And this tendency was greatly aggravated by the Act of 1844, and was displayed with far greater intensity in 1847. When the public saw that the Bank's reserve was diminishing so rapidly, and no one knew what would be done, a general rush was made at its notes, and they were hoarded away in millions.

No sooner was the Act suspended than they came forth in millions from their hiding places, and the panic passed away. Therefore, in this fundamental point, there is no doubt whatever that Sir Robert Peel was entirely wrong, and that the allegation of the opponents of the Act is strictly justified—that, when a pressure reaches a certain point, the Act aggravates and intensifies it into a panic, which can only be allayed by the suspension of the Act.

Moreover, Sir Robert Peel was quite mistaken in supposing that bankers only make advances out of *bonâ fide* capital. This is so fully set forth in the section on the Theory of Banking, that we need only remind our readers that all banking advances are made, in the first instance, by CREATING CREDIT. Every banker knows perfectly well that an excessive restriction of credit causes and produces a run for gold. When the banks see that they can get no assistance from the Bank of England, they must cease discounting. But if they cease discounting, their customers have still engagements to meet, which, of course, they will do as long as they can; and, in order to do so, they have no other resource but to draw their balances, and this, of course, will end in making their bankers stop payment; and bankers and customers will fall together.

Many persons have observed that the variations in the Rate of Discount have been much more frequent since the Act than before it; and they maintain that the Bank Act is the cause of these variations. In answer to this, it may be said that it was the very fixedness of the Rate of Discount in former times that was the main cause of many calamities; and that if the variations had been more frequent and severe, these calamities would have been saved. And as for the frequent variations since the Act, it may be confidently said that the Bank Act is in no way whatever their cause. Their true cause is the increased knowledge of the true scientific principles of Banking, and the increased speed and cheapness with which bullion now flies from one commercial centre to another.

These considerations give a final and conclusive answer to those persons who conceive that the Rate of Discount can be kept fixed. These variations are in modern times absolutely indispensable, and the only method by which the Bank can preserve its security. They must necessarily have been made, had the Bank Act never

existed at all. In fact, if this principle of controlling the Paper Currency had been understood and acted upon in former times, there never would have been any necessity for the Act. It was the very ignorance or neglect of this principle which had brought the Bank into danger so many times before.

39. It is a matter of very serious doubt indeed whether the sweeping words of the Bank Act of 1844 have not rendered all English banking illegal. For the 11th section enacts, in the broadest possible terms, that no banker "shall make any engagement for the payment of money payable to bearer on demand." Now we have shewn the utter misconception of the very nature of banking business so generally prevalent, even among persons who might naturally have been expected to have been better informed. Thus, even Gilbart and Lord Overstone consider the business of banking to consist in borrowing money from one set of persons and lending it to another. So, also, paragraph 62 of the Report of the Committee of the House of Commons on the crisis of 1857; among other errors and misconceptions, which we have already refuted, says—"the use of money, and that only they regard as the province of a bank, whether a private person or incorporation, or of the banking department of the Bank of England."

Now we have over and over again pointed out that this is the business of a Bill Discounter, and not of a "Banker." A banker never lends money in the first instance; we have already explained that the very essence of banking is to create Credit, or liabilities payable to bearer on demand. But to shew the utter misconception of the very nature of the business prevalent among men who are supposed to be authorities on the subject, we have only to quote from the evidence given before the Committee just mentioned. A merchant was being examined as to the pressure in America in the autumn of 1857. He was questioned by Mr. Wilson as to the transactions of the American banks.

Q. 4941. Are you aware that during the last two or three years, while the circulation of notes had not increased at all, or had increased to the very smallest possible amount, the amount of advances, as shewn by those accounts, had, as you have referred to, increased to a very enormous amount?—Yes; I must apologise for the answer I gave; I meant the advances when I said the

notes; *I meant the liability of the bank from its advances made on securities.*

4942. *Chairman (Mr. Cardwell).—The mere act of making an advance does not render a person liable;* OF COURSE, THE LIABILITY IS THE OTHER WAY?—Yes.

4943. Will you trace the process by which the banks increased their own liabilities by making advances to others?—Looking at the securities which they held from other parties by making advances to a number of merchants to a larger amount than usual, they felt that the indebtedness of these parties to them were more than was prudent.

4944. *Mr. Wilson*—Do you mean that the banks had made undue and imprudent advances in the loan of their capital and *deposits*?—I apprehend that they thought so. . . . .

4947. But it would be either from deposits or from capital that increased advances could be made by the banks?—Certainly.

Now these extracts shew that neither Lord Cardwell nor Mr. Wilson truly apprehended the nature of banking business. No doubt, in ordinary cases of advances by private persons, the person who makes an advance does not create a liability; but it is just in this that the exceptional nature of "banking" consists. A banking advance is always in the first instance a liability. When Mr. Wilson asked whether banks do not make advances by a loan of their capital or *deposits*, he shewed that he was equally ill informed; for we have pointed out that the money deposited is not in banking language called a "deposit;" it is an "asset;" the "deposit" is the credit created in exchange for it; but when a banker discounts a bill by creating a Credit, or liability, that Credit is equally called a "deposit." Bankers, therefore, do not make advances *out of* their "deposits;" but they make advances by *creating* deposits, or credits. Surely we may marvel that such extraordinary ignorance of the mechanism of banking should pass unchallenged by the Committee, who counted more than one banker among its members. At all events, we may cease to wonder at the futile nature of Parliamentary inquiries into banking, when those who conduct them display such ignorance of the facts of what they are inquiring about as would make them the laughing stock of any bank clerk.

Equally ill informed also was Mill as to the very routine business

of banking; for in the early editions of his *Political Economy*, he has this note in his chapter on the *Regulation of Currency*, Book III., ch. 24, § 3.—"It would not be to the purpose to say, by way of objection, that the obstacle may be evaded by granting the increased advance in book credits, to be drawn against by cheques, without the aid of bank notes. This is, indeed, possible, as Mr. Fullarton has remarked, and as I have myself said in a former chapter. *But this substitute for bank note currency certainly has not yet been organised;* (*!!*) and the law having clearly manifested its intention that in the case supposed, *increased Credits should not be granted*, it is yet a problem whether the law would not reach *what might be regarded as an evasion of its prohibitions*, or whether deference to the law would not produce (as it has hitherto done!) on the part of banking establishments, conformity to its spirit and purpose, as well as to its mere letter."

Now what Mill in this extract said has never yet been organised happens to be the precise thing in which "banking" consists! It is right to add that in the later editions of his work this paragraph has been omitted.

But though Mill shewed his ignorance of the existing facts in this case, his admission is valuable that this practice is a direct violation of the spirit and purpose of the Bank Act; but whether it is not also a direct violation of its *letter* is very seriously doubtful.

All banking advances, then, are made by creating Credit or Deposits; and whether this Credit is transferred from one person to another, by means of Bank Notes, or Cheques, in no way affects its nature or it quantity. And it is this very thing which is already creating so much alarm in the minds of many persons when they see the huge mass of deposits, or Banking Credits, reared up by the London Banks, on so slender a basis of bullion: for these Deposits are in reality neither more nor less than so many Bank Notes in disguise.

Now when a banker creates a Credit in his customer's favour, either in exchange for money, or bills, or any other security, by the fundamental contract between banker and customer he engages to pay this Credit to his customer, *or to any one else to whom his customer may assign it:* and in token of this he delivers to his customer a book containing blank slips payable to bearer on demand, or to order on demand, called in modern commercial

language Cheques. The very essence and business of banking consists in "making engagements to pay money payable to bearer on demand." It may be said, indeed, that a banker is not a party to the cheque: true, his name is not on the face of the instrument, as an obligor; but he is *bonâ fide*, and, in reality, a party to it so long as he has funds to meet it: for it is a legal liability of his to pay his customer, or any one his customer may assign it to; and by the very fact of his creating the Credit, he authorises his customer to put it into circulation. So long as his customer does not exceed the amount at the credit of his account, the banker is legally a sleeping party to the cheque.

Now, suppose that two men agree to assail a traveller; one of them points a loaded pistol at the traveller's head, the other pulls the trigger: both are equally guilty of the murder. Suppose one man lights a match and gives it to another man, and tells him to set the house on fire, both are equally guilty of the arson.

The very same argument applies to the ordinary routine business of banker and customer. The law distinctly says that no banker "shall make any engagement to pay money payable to bearer on demand." But the ordinary routine business of a banker to create a credit in favour of his customer which he expressly authorises his customer to make payable to bearer on demand, and to put it into circulation. Now what is this transaction but a clear conspiracy between the banker and the customer to violate the express words of the Bank Charter Act of 1844? The banker creates the engagement, and the customer puts it into circulation. The banker loads and points the pistol at the Bank Act, and the customer pulls the trigger: or the banker lights the match and delivers it to the customer who consumes the Act. How is this transaction one whit less a conspiracy in law than in the case of the murder or the arson?

Of course, the whole difficulty has been created by the gross ignorance of those who drew the Act of the routine business of banking: but that is no business of ours. There stand the distinct words of the Law; and there are the actual facts of banking; and it is not possible for the wit of man to reconcile them.

40. The subject cannot fail, we think, very soon to engage the attention of the Courts of Law and the Legislature, for very

recently a new institution has been founded which is a still bolder contravention, not only of the Bank Charter Act of 1844, but of all our monetary legislation for the last hundred years, with a certain exception.

This Bank is called the CHEQUE BANK, and we will first describe its method of business, and then compare it with the existing monetary Laws.

It receives Money only, and in exchange for this money it issues an exactly equal amount of cheques payable to order, and crossed with the words ———" & Co."

Thus, suppose a person pays in £50; it will give him a book containing ten cheques payable to order and crossed, and perforated with the mark not exceeding £5. The customer may, of course, fill up the cheque with £5, or any less sum; but not with any greater sum: and supposing that any balance remains after the customer has exhausted the 10 cheques, the bank will give him cheques to the amount of the balance.

As the cheques are crossed, it pays no money over the counter, but all its cheques must pass through the hands of a banker, and are only payable to a banker. But though the Bank itself only pays them to a banker, any banker or other person may give cash for them just in the same way as for an ordinary cheque, and in the first year of its existence it has already established relations with about 1,500 home, foreign, and colonial banks, which will cash its cheques.

The plan adopted by this Bank obviates an objection to which ordinary cheques are liable: when a customer places money with an ordinary banker, the banker gives him a cheque book, but there is no security that the customer may not draw cheques in excess of the credit he has in the Bank: consequently, no one who takes an ordinary cheque has any guarantee that the drawer has any funds to meet it. But this cannot happen with the cheques of the Cheque Bank. They are not issued except in exchange for money: and any one who takes one of them is positively assured that it will be paid. These cheques, therefore, have all the actual security of cash. They are intended by the promoters of the bank to be received as a substitute for cash; and already several Railway and other companies have agreed to receive them as cash. The Directors also propose to supersede Post Office Orders; and there can be no doubt that they are far more convenient and

cheaper than Post Office Orders. As the Directors take care to issue no more cheques than money paid in, they publicly announce that none of their cheques will ever be refused, however long it may remain in circulation. These cheques are, therefore, in reality, crossed Bank Notes.

Now we do not intend for one moment to question the merit, the ingenuity, and the utility of this bank. But the question is—How does it consist with the whole of our monetary legislation for the last hundred years, as well as with the Bank Act of 1844? About one hundred years ago many parts of the country were deluged with silver notes for 5s. and 10s., and even less: they were found such an intolerable nuisance that an Act was passed in 1775 to prohibit all notes under 20s.; and in 1777 another Act was passed, prohibiting all notes under £5. And, with the exception of the period between 1797 and 1829, it has been the inflexible determination of the Legislature to prohibit any banking obligations payable to bearer on demand, for less than £5, from being issued and circulated. And since the Bank Act of 1844, even this right has been restricted to those bankers who were in existence at that period. No new banks may issue obligations payable to bearer on demand. It was even for a long time illegal to draw cheques for less than £5, though that restriction is now removed. It is perfectly well known that coin cannot circulate along with paper of the same denomination; consequently, for a hundred years it has been the settled purpose of Parliament that no paper shall come into competition with the coin of the realm.

Now the Cheque Bank publicly guarantees the payment of all its cheques. It is, therefore, avowedly a party to them. What, then, prevents them, or is supposed to prevent them from being an express violation of the words of the Bank Charter Act?—

1st. It is said that they are issued payable to order on demand, and not to bearer on demand.

Now, this cannot save them from the penalties of the Act, because as soon as the payee has indorsed them, they become payable to bearer on demand; and, consequently, the bank is a party to an obligation payable to bearer on demand contrary to the express words of the Act.

This subtlety, therefore, will not hold water for an instant.

2nd. But there is a second one. The cheques are *crossed*, and,

therefore, they are not literally payable over the counter to *bearer* on demand; but only to the bearer's banker, or agent, on demand.

Now this is the sole subtlety which is supposed to save these instruments from being a direct violation of the Bank Act. They are distinctly Bank Notes—but they are *crossed* Bank Notes, and, therefore, are supposed to evade, by the skin of their teeth, the precise words of the Act. Now it is a well known maxim of law, that no one shall do indirectly what the law forbids to be done directly. Now the Law most expressly forbids any banking obligations payable to bearer on demand to be issued; and it is supposed that it will allow its solemn purpose to be set aside by the flimsy dodge of making the obligations payable to bearer's *agent* on demand!

Now whether a Court of Law could, by any possibility, hold that these ingenious gentlemen have succeeded in evading the precise *letter* of the Law, we shall say nothing; because we little doubt but that before very long the question will be formally investigated.

But there can be no possible doubt that these instruments, these crossed Bank Notes, are an utter and complete violation of the manifest purpose and intention, not only of the Bank Charter Act, but of all our monetary legislation for the last century. For what is easier than for the Bank and its customers to agree to make these Cheques for £1, and put them into circulation? Then we have at once £1 Bank Notes. So also the cheques for 10s. and 5s. are the old silver notes back again. If the Cheque Bank may do this with impunity, why may not every other bank in the kingdom do the same?

The Cheque Bank professes, for the present at least, to issue its cheques only in exchange for cash. But if it does so in exchange for cash, what is there to prevent them from issuing them in exchange for bills and other securities? And why should not every other Bank do precisely the same thing, if the Cheque Bank may? If the *crossing* is sufficient to save them from the penalties of the Act, they may equally be issued in exchange for bills and other securities.

No bank discounts a bill, or creates a credit in favour of a customer, unless it believes its advance secured. And if it creates a credit in his favour which he may the very next instant demand

payment of in cash, it may just as well give him these crossed Bank Notes, which will probably remain some time in circulation. There is nothing wanting but that the banker and the customer should agree to draw these cheques for even sums such as £5 and £1, or any others, and we have at once the power of unlimited issues of Bank Notes restored to the banks.

Now if it should be found that the ingenuity of these gentlemen has been successful, they will have completely picked the lock of the Bank Charter Act, and opened the floodgates to inundate the country with boundless quantities of paper money, which it has been the settled purpose of the Legislature to suppress.

The directors of the bank, to do them justice, make no secret of their intentions; they intend to revolutionise the banking system of the country, and they will assuredly do it, if their experiment is allowed to proceed. For this bank is the germ of a system which will reduce all our monetary laws and Bank Charter Acts to waste paper.

After the passing of the Bank Act of 1844, a custom sprang up in some of the Midland Counties of customers drawing cheques on their bankers, which the banker accepted. These, of course, were simply Bank Notes: and a clause was inserted in the Stamp Act of 1854 to preclude such proceedings.

Thus the Legislature has manifested its fixed determination to suppress banking obligations payable to bearer on demand; and when certain parties had discovered what they thought a loop-hole in the Act, Parliament immediately took care to stop it up. Now is it likely that when the Law Officers of the Crown and the Chancellor of the Exchequer are fully aware of the inevitable consequences which will sooner or later follow from the operations of this bank, they will suffer it to exist? Cheque Bank cheques are nothing more than accepted cheques, which have already been put down by law. The express purpose of Parliament is to suppress unlimited issues of circulating Banking Credit, and is it likely that they will permit their fixed determination to be set at nought by the paltry quibble that these Bank Notes are not payable to *bearer* on demand, but to *bearer's agent* on demand? The ingenious gentlemen who devised the Cheque Bank have laid a cockatrice's egg, which, if suffered to come to maturity, will inevitably devour the Bank Charter Act.

41. This circumstance will, no doubt, tend to accelerate, what statesmen of all parties are so anxious to avoid, a thorough and searching investigation into the whole of our Banking system. But, however they may strive to stave it off, such an inquiry will inevitably come. For each succeeding crisis will be more severe than its predecessor. In 1847, the first crisis after the Act of 1844, the Credit system was comparatively small; it had greatly increased in 1857, and the crisis was more severe; in 1866 it had greatly increased, and the crisis was far more terrible; and so it will be in future. Every year the system of Credit is attaining more colossal dimensions, and; like a huge octopus, it now grasps all classes and almost all persons in its embrace. And, like the throes of Enceladus, it will periodically convulse the world, until it is settled on true scientific principles.

That this work is subversive of the dominant opinions of the day is true. But, as the great Attic Tragedian says—"Ideas have more power than the force of arms." Ideas are no respecters of persons: they will sap the power of rank, of wealth, of numbers, of authority. This work restores the great line of orthodox opinion so rudely broken of recent years. It is the lineal representative of the ideas of BURKE, of KING, of THORNTON, of HORNER, of HUSKISSON, of the BULLION REPORT, and of the FRAMERS OF THE ACT OF 1819. It adopts and explains their principles so far as they went, and completes their Theory in the point in which it was defective; and the method of giving effect to their doctrines, namely, by adjusting the Rate of Discount by the state of the Foreign Exchanges and the state of the Bullion, which we first developed in 1856, is now universally admitted to be the true method, and adopted by every Bank in the world. The ideas and the doctrines of the men who influenced Peel in framing his Bank Act are now completely discredited and effete, and they want nothing but an examination by competent judicial authority, to be utterly condemned and exploded.

42. There are, in truth, laws of nature in the industrial world, as well as in the physical world; and a systematic attempt to violate them terminates in disaster, as surely and as certainly as a systematic disregard of the laws of nature in the physical world. It may be a long time before the mischief is developed, nay, for a

considerable time the results may appear to be beneficial; but in the long run the faulty principle is sure to produce its fruits—

Raro antecedentem scelestum
Deseruit pede pœna claudo.

Now the great law of nature in the industrial world is FREE TRADE. There is nothing more certain in all the range of science, than that exclusive privileges in commerce are great violations of natural right. Trading monopolies are moral crimes. When Parliament sold to the Bank of England the exclusive monopoly of banking, IT SOLD WHAT IT HAD NO RIGHT TO SELL. It had no more right to sell to one body of persons the right of carrying on the business of banking than it had to sell a monopoly of the business of bookselling, or leather dressing, or any other trade whatever. This monopoly was as unjust and as pernicious as any of those which the Commons of Elizabeth and James I. had rebelled against. For a considerable period everything seemed to go well. The Bank of England rendered unquestionable services to the State—so might any other trading corporation in its line—and any other corporation might have done the same, if they had been permitted. But, nevertheless, the principle of the monopoly was utterly vicious; and Time, the avenger, brought retribution at last. Injustice slumbers long, but it is sure to have its revenge at last. When in the natural course of events, the commerce and wealth, and increasing spirit of enterprise, demanded an increased currency, and, save for this monopoly, powerful and wealthy companies would have been formed in the metropolis with ramifications all over the country, these unjustifiable privileges of the Bank prevented them. The Bank would neither supply this currency itself, nor permit any other powerful company to do so. The consequence was that the duty of supplying the necessary currency fell into the hands of any grocer, or tailor, or cheesemonger who chose to call himself a banker. Their power was unlimited. Then came 1793; then 1797; then the long series of disasters from 1810 to 1816; and then 1825.

When, in the course of less than thirty-five years, men had seen the whole of England shaken, from end to end, by those tremendous banking catastrophes, which seemed to be of periodical recurrence, they turned to the example of a country,

where, though there had been commercial difficulties, there never had been any banking disasters at all comparable to those of England. Many private bankers, it is true, had failed, but, except the Ayr Bank, up to 1826 no joint stock bank had failed. A very strong and general demand, therefore, arose for the Scotch system; many persons thinking that because the Scotch banks were joint stock banks, joint stock banks were all that was requisite to obtain security. When, therefore, the monopoly of the Bank was partially broken up in 1826, they expected to enjoy similar prosperity and safety to what Scotland had done; and when, after an experience of fourteen years, they found that the joint stock banks were equally ill managed, and scarcely more secure than the private banks, great and bitter disappointment ensued, and joint stock banking became a byeword of reproach.

But, in truth, the causes of this are very evident. In Scotland the growth of banking had been extremely gradual. The first joint stock bank was founded in 1695, the second in 1727, the next in 1747, and except a few country ones, no new one of any magnitude was founded till 1810. The consequence was that they gradually expanded with the increasing wealth of the country; they grew with its growth. Moreover, they correspondingly increased their capital. When the country required additional accommodation, it was done chiefly by throwing out branches from the parent establishments in the capital, so that they had all the experience and effective control of the superior officers. At present there are but eleven distinct establishments, but these have 878 branches, extending into every village in the kingdom. It is calculated there is a banking office for every 4,000 people. These are all independent institutions, depending upon their own wealth and resources. But when the terrible monetary convulsions in England caused a breach to be made in the monopoly of the Bank, it was only a partial one, a large portion still remained and exercised its deadly influence. When the new joint stock banks were formed they were merely local banks, all as dependent on the Bank of England as the private banks had been. The Bank maintained its exclusive privileges within sixty-five miles of the metropolis; and this was the inherent vice of the English system of joint stock banking. Instead of being independent banks, strong in their own resources, and able of their

own strength to withstand a shock, they were carried on upon the most dangerous principle of re-discounting the bills they bought, as indeed they could not help doing: thus their very existence depended upon the Bank of England and the London bill brokers.

To suppose that this in any way resembled the Scotch system would be a gross fallacy; the English banks were forbidden to have establishments in the metropolis, which, of all others, is the best part of the Scotch system. We have pointed out elsewhere that capital has a tendency to accumulate in certain districts of the country, where there is not sufficient demand for it, and in others there is a greater demand for it than the district supplies. Now, in the English system, the bankers in the former part of the country remit money to London to be held in deposit for them, and in the latter the bankers remit their bills to be re-discounted, and have the money remitted. Now, this legitimate operation, which is all done by one establishment in Scotland, requires three distinct and independent establishments to do it in England, and has given rise to that system of re-discounting which is so perilous and so objectionable. *But it is the natural result of the monopoly of the Bank.* Because, if it had not been for that, these three establishments would all have been under one control and management; under the present system they are three different and frequently conflicting interests.

And this great violation of natural justice manifested its evil consequences in many other striking ways. No man of common sense now disputes the great principles laid down by the Irish Committee of 1804, the Bullion Report of 1810, and the authors of the Act of 1819, that the paper currency must be governed by the exchanges. But long after the Directors of the Bank of England had learnt this principle, and professed to govern their issues by the exchanges, they complained loudly and justly that their efforts to contract their own issues in an adverse exchange were counteracted by the issues of the country banks, and that as soon as they withdrew their paper, the vacuum was immediately filled up by country issues. The reason is very manifest. The Bank of England, being situated at the heart of the exchanges, felt the danger, and saw the necessity of contracting her issues; the country banks, being situated at a distance, knew and cared nothing about the exchanges; nay, they con-

tinually professed that their issues had nothing to do with the exchanges, and, naturally, whenever they saw an opening, issued their paper.

Now, if it had not been for this iniquitous monopoly of the Bank, what would probably have been the condition of English Banking at the present day? There would have probably been thirty or forty great banks in the metropolis, each as great as the present Bank of England, with ramifications and branches all over the country. It would, in fact, have been the Scotch system on a much larger scale—one commensurate with the greater magnitude of the country. It would have been one great monetary nervous system. If this had been the case, they would have been acted upon immediately by the exchanges. London being the centre of the exchanges, any drain of gold would have caused immediate measures of counteraction, which would have been propagated and enforced by the parent establishment all over the country. The tremor of the exchanges would have been instantly felt in every village in the kingdom. Thus, under a natural system, any effect in London would have vibrated through all England, and no country banks could possibly have acted in opposition to the ones in London. And this is the result to which the banking system of the country is slowly gravitating, and which it will ultimately assume. And if this, which is the natural system, had been allowed to grow up from the beginning, we believe that those great banking catastrophes never would have occurred. If any crisis had occurred, they would have stood by and assisted one another, but, when any shock did occur under the unfortunate system which has prevailed, the country banks have all depended on the Bank of England for their very existence.

It is a melancholy reflection that these great changes cannot take place without producing much injury to private individuals. The very obnoxious law itself gave birth to the business of a number of persons, which the removal of the shackles of monopoly must necessarily extinguish. In 1832 the banking witnesses felt that the establishment of joint stock banks would be fatal to the existence of many of the private bankers, and some went so far as to wish to prohibit them on that account. Since these 43 years have passed, we have undergone a mighty revolution of opinion in commercial matters.

The ideas of that age are now as antiquated and obsolete as those of the men before the flood. Then, the general public was supposed to be made for the benefit of each separate monopoly, and interest, and class. But now all this is changed. It was akin to the great Ricardian heresy, that cost of production regulates value. Every interest which had bestowed labour and expense in making productions, was allowed to hold the public in thraldom. The value of the law appeared to be measured by the quantity of labour bestowed in mastering its disgusting intricacies and technicalities. Obstinate pedants maintained it gravely as a valid argument for upholding all the old abuses of the law, that great and eminent men had bestowed so much labour and unhappy diligence in accumulating so much legal lore. What, said they, is the fruit of so much ingenuity to be thrown away? In fact, they determined upon loading the public with all sorts of oppression, for the sake of preserving a fictitious value to so much misdirected industry.

But all these ideas are now past and gone. They were congenial to times when education was narrowed to a small and select circle, and the general public was in a state of helpless and inert ignorance. But they have all been swept away before the advancing tide of public intelligence. It is now well settled that the community in general is not made for the benefit of agriculturists, or manufacturers, or lawyers, or bankers, or any set of men whatever, but they are for the benefit of the country. It is the wants of the community which must give rise to the value of their occupations; and all who engage in them must regard them as purely commercial speculations. The wants and requirements of all are not to be restricted or moulded by legislation to be subservient to the advantages of a few, but the interests of particular classes must be subordinate to the necessities of all.

CONCLUSION OF PURE ECONOMICS.

We now bring this part of the work, which we denominate PURE ECONOMICS, or the THEORY OF VALUE, to a conclusion. All the subjects discussed in it are capable of as strict mathematical demonstration as Mechanics. It will not be so in the succeeding

part, where the subjects discussed will be, to a great extent, matters of opinion. But men can no more alter the Laws of Value than they can alter the Laws of Mechanics. They are absolutely the same in all ages and among all men: and that is the reason why Economics has all the certainty, and all the exactness, though not the same numerical precision, as a Physical Science.

In the course of this work we have had to differ from many persons who are considered as authorities on the subject. But if we had not perceived what we felt to be great errors in their writings, there would have been no need of attempting it. But we have not gone beyond that freedom of discussion which is the very lifeblood of knowledge. The same evil which infected the progress of every other branch of Philosophy, injuriously affects Economics at the present day—running after *authorities*—quoting authorities on one side or the other, without ever investigating or reflecting whether what these so-called authorities say is true; in many cases without sufficient knowledge of the subject to decide. In matters of taste authorities are much—in matters of science authorities are NOTHING. We acknowledge no authority. We are ready to pay every proper respect to Smith, Ricardo, Mill, or any one else. But just as Astronomy is greater than Hipparchus, than Ptolemy, than Copernicus, than Kepler, even greater than NEWTON himself; so Economics is greater than Quesnay, than Turgot, than Smith, than Ricardo, or than Mill. We refuse to be bound by what Smith, or any one, says, unless it is true. We have not been deterred from exercising the same free and boundless right of examining and discussing what preceding writers have said, whatever be their reputation, any more than succeeding philosophers have done with respect to Newton. They examine, discuss, and reject whatever is unsound in Newton with unlimited freedom. They only accept what they know and feel to be irresistibly true, according to an acknowledged standard of truth. They do not receive it *because* Newton says it, but because it is true. We do the same. We have endeavoured rigidly to adhere to the same method. They educe their general rules from the accurate examination and description of phenomena; we endeavour to educe general principles from the accurate observation and description of Economical phenomena: and we adopt precisely the same great general principles of reasoning

that they do. It is the Baconian method: the only method of discovering and erecting a solid edifice of science. There never was a greater error than that of the poet—

"'Tis not in things o'er thought to domineer."

On the contrary it is the very essence of science to idealise reality. All progress in science has been achieved by carefully fitting language to the facts of nature. The express purpose of this work is to sweep away authority and dogmatism, precisely as Galileo and modern physical philosophers have swept away the Aristotelian dogmatism on Mechanics and Astronomy. Except in those abstruse mysteries of nature which far transcend the limits of the capacity of the great majority of mankind to discover, or even to comprehend, there is no nobler field open at the present day for the extension of scientific research than Economics. But it must be done in the rigid method of the Baconian system: no other can lead to solid and durable success. The army of Bacon has gone forth conquering and to conquer, and must never pause in its victorious career, until universal science is brought under the dominion of the Monarch of Philosophy.

END OF PURE ECONOMICS.

A. P. BLUNDELL, Printer, 78, Church Street, London, S.E.

Digitized with financial assistance from the
Government of Maharashtra
on 18 July, 2018